Report

of the

Examination of

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company

(now known as: Employers Insurance Company of Wausau)

Wausau, Wisconsin

As of December 31, 1999

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Jorge Gomez, *Commissioner*

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February 5, 2001

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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company
Wausau, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the company was conducted in 1997 and 1998 as of December 31, 1996. The current examination covered the intervening period ending December 31, 1999, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employes' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Financial Experience of the Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the work papers prepared by the independent public accounting firm. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Actuarial Review by PricewaterhouseCoopers LLP

Since January 1, 1999, the company has been a participant in a reinsurance pooling agreement with Liberty Mutual Insurance Company and certain of its property and casualty insurance subsidiaries and other affiliates. The company’s net loss and loss adjustment expense reserves are the product of the reserves of the Liberty Mutual Group Pool and the company's participation percentage in the pool.

PricewaterhouseCoopers LLP, under contract with the Massachusetts Division of Insurance, reviewed the adequacy of the company's loss reserves and loss adjustment expense reserves, as a function of its participation in the pool. The results of the firm's work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuarial firm's conclusion.

II. HISTORY AND PLAN OF OPERATION

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company (hereinafter also "Employers" or "the company"), a mutual property and casualty company operating under ch. 611, Wis. Stat., was incorporated in the state of Wisconsin on August 21, 1911, under the name "Employers Mutual Liability Insurance Company of Wisconsin." In 1911, the Wisconsin Legislature approved the first workers' compensation law in the United States, which required employers to carry such insurance as protection for employees injured on the job. A group of Wausau area industrialists decided to sponsor the incorporation of this mutual insurance company in order to give the law a chance to work as envisioned. The company commenced business on September 1, 1911, with the effective date of Wisconsin's workers' compensation law.

Then-existing state law restricted workers' compensation insurers to monoline status. A companion carrier, Employers Mutual Indemnity Corporation, was established on August 9, 1923, to write casualty lines other than worker's compensation. A companion property carrier, Employers Mutual Fire Insurance Company, was organized on September 14, 1935, due to then-existing state licensing restrictions that did not permit a single company to write both property risks and casualty risks. Employers merged with Employers Mutual Indemnity Corporation and Employers Mutual Fire Insurance Company on June 30, 1937, and December 22, 1975, respectively. The name of the company was changed to that presently used on September 1, 1979.

On November 23, 1985, Employers consummated an affiliation agreement with Nationwide Mutual Insurance Company (hereinafter also "NMIC") dated November 6, 1985. NMIC's sister company, Nationwide Mutual Fire Insurance Company (hereinafter also "NMFIC"), was not party to the affiliation agreement. Within the context of this agreement, and certain subsequent agreements, NMIC exercised control of Employers and its subsidiaries through nomination of the various boards of directors, common executive management, and control of the reinsurance pool to which all direct premiums written by Employers are ceded and from which all net premiums written are assumed. The directors of Employers continued to be elected by the policyholders of Employers, as required by s. 611.53 (2), Wis. Stat., but election and reelection of nominees associated with NMIC on the Employers board preserved the affiliation.

Pursuant to its 1985 affiliation agreement with NMIC, NMIC invested $250,000,000 in Employers through the purchase of surplus notes. Additional surplus note contributions from NMIC ultimately brought the balance of surplus notes to $400,000,000.

The years of affiliation with NMIC resulted in considerable integration of the operations of Employers and NMIC, together with their respective subsidiaries and affiliates. The two insurers and many of their respective insurance subsidiaries pooled their risks, and shared a program of external reinsurance on the pooled risks. The same persons held many of the senior executive positions of NMIC and Employers. Employers and its subsidiaries and NMIC and its subsidiaries provided numerous services to one another. The employees of Wausau Service Corporation, then a wholly-owned subsidiary of Employers that provided services to Employers, received pension, medical, and other benefits from plans sponsored by NMIC.

In 1998, NMIC decided to end its affiliation with Employers in order to focus greater attention on personal lines, particularly on promotion and service to its “First of America” brand of life insurance and investment products. The management of Employers searched for an affiliation in replacement that would provide the company with a means of severing its ties with NMIC in an orderly manner that preserved the continuity of quality service to policyholders and claimants.

On October 5, 1998, Employers entered into an Affiliation and Contribution Note Purchase Agreement with Liberty Mutual Insurance Company (hereinafter also, “Liberty Mutual”) and a De-Affiliation Master Agreement with NMIC. The affiliation with Liberty Mutual was approved by OCI, following a public hearing, on December 16, 1998, and, under the terms of the agreement, became effective January 1, 1999. The disaffiliation with NMIC was approved in writing on December 16, 1998, and, under the terms of that agreement, became effective December 31, 1998.

The company has no employees of its own. All day-to-day operations are conducted with staff provided by Wausau Service Corporation (hereinafter also, “WSC”) and Liberty Mutual in accordance with the business practices and internal controls of those organizations. The company initially pays virtually all expenses for itself and all Liberty Mutual Group activities coordinated from the Wausau, Wisconsin office. Legal entities for whom Employers customarily makes payments include, but are not limited to, Wausau Business Insurance Company, Wausau General Insurance Company, and Wausau Underwriters Insurance Company. Expenses other than federal income taxes are allocated on the basis of specific identification, utilization estimates, and time studies, in conformity with a general expense allocation agreement. Tax allocations are established in accordance with a written consolidated federal income tax policy applicable to Liberty Mutual and certain of its direct and indirect subsidiaries. Intercompany balances with affiliates are created in the ordinary course of business with settlements generally made on a quarterly basis. Written agreements with affiliates are further described in the section of this report titled “Affiliated Companies.”

Employers’ operations are coordinated from its home office in Wausau, Wisconsin. The company owns several buildings in Wausau that are used principally for the transaction of its own business. Support services are provided through a network of leased office facilities in 66 cities throughout the United States. This represents a substantial consolidation, since at the time of the prior examination, the company had offices in 103 U.S. cities and an office in London, England.

In 1999, the company wrote business in every jurisdiction in which it is licensed in the United States, as well as in numerous foreign countries and territories. The distribution of direct premiums written in 1999 by state or other jurisdiction was as follows:

Wisconsin	$123,630,247	15.9%
New York	72,566,637	9.3
California	49,415,014	6.4
Texas	42,214,450	5.4
Florida	40,722,283	5.2
New Jersey	30,991,541	4.0
Michigan	29,260,117	3.8
Illinois	27,047,942	3.5
Pennsylvania	26,230,738	3.4
Indiana	18,963,715	2.4
Canada	4,567,038	0.6
Other Alien	1,815,235	0.2
All Other U.S.	309,260,041	39.8
Total	$776,684,998	100.0%

As of the examination date, the company was licensed in all 50 U.S. states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico. There were no license applications pending.

In the state of Wisconsin, the company is licensed to transact the following lines of business as defined by s. Ins 6.75 (2), Wis. Adm. Code:

(a) Fire, Inland Marine, and Other Property
(b) Ocean Marine
(c) Disability
(d) Liability and Incidental Medical Expense
(e) Automobile
(f) Fidelity
(g) Surety
(j) Credit
(k) Worker's Compensation
(l) Legal Expense
(n) Miscellaneous
(o) Aircraft

The following table is a comparative summary of direct premiums written in 1996 and 1999, respectively:

Line of Business	1996 Premium	1996 Percent	1999 Premium	1999 Percent	Percent Change in Premium
Fire	$ 62,765,708	6.8%	$49,648,130	6.4	(20.9)%
Allied lines	43,086,371	4.7	36,204,742	4.6	(14.3)
Homeowner's multiple peril	174,321	0.0	0	0.0	(100.0)
Commercial multiple peril	14,314,492	1.5	16,848,885	2.2	17.7
Ocean marine	(4,859)	0.0	310,152	0.0	N/A
Inland marine	4,937,049	0.5	5,564,310	0.7	12.7
Earthquake	7,100,621	0.8	5,368,874	0.7	(24.4)
Group accident and health	152,467,330	16.4	115,422,325	14.8	(24.3)
Worker's compensation	465,448,705	50.3	307,962,976	39.7	(33.8)
Other liability - occurrence	66,347,058	7.2	83,939,645	10.8	26.5
Other liability - claims made	13,439,499	1.4	4,061,497	0.5	(69.8)
Products liability - occurrence	13,946,025	1.5	12,209,472	1.6	(12.5)
Products liability - claims made	39,966	0.0	70,348	0.0	76.0
Private passenger auto liability	809,462	0.1	40,542	0.0	(95.0)
Commercial auto liability	42,468,682	4.6	98,656,240	12.7	132.3
Auto physical damage	7,086,380	0.8	8,255,500	1.1	16.5
Aircraft (all perils)	1,173,587	0.1	(1,200)	0.0	(100.0)
Fidelity	2,308,272	0.2	2,023,320	0.3	(12.3)
Surety	23,624,255	2.5	22,915,730	3.0	(3.0)
Glass	4,049	0.0	0	0.0	(100.0)
Burglary and theft	344,199	0.0	230,901	0.0	(32.9)
Boiler and machinery	5,907,035	0.6	6,952,607	0.9	17.7
Total All Lines	$927,788,207	100.0%	$776,684,996	100.0%	(16.3)%

As of December 31, 1999, business was written through a sales force consisting of 146 account representatives and 2,577 independent agents.

Account representatives were employees of Wausau Service Corporation. Each received a salary, with the opportunity to earn a bonus, if his remuneration credits, tallied much the same as commissions, exceeded his salary and chargeable business expenses. If remuneration credits did not exceed salary and chargeable expenses, there was no chargeback, nor was the deficiency carried into the following year's compensation formula.

During 2000, account representatives ceased to produce business for the Wausau Insurance Companies and began to place business with Liberty Mutual Insurance Company and certain of its subsidiaries instead. The Wausau Insurance Companies, including Employers, were reconfigured to market business exclusively through independent agents. A description of the holding company subsystem known as the Wausau Insurance Companies is provided in the section of this report captioned, "Affiliated Companies."

Independent agents are compensated according to the following commission schedule. Some rates are on a sliding scale that declines with the volume of premium or service revenue related to a specific policy.

Product Line	Commission Rates
Worker's Compensation	5%
General Liability	15%
Auto	15%
Umbrella	15%
Packages	17%
Other Liability	Varies
Other Property	15%
Highly Protected Risks/ Property Special Risks	15%
Fidelity, Burglary & Other Crime	15%
Plate Glass	10%
Contract Surety Bonds	5% to 30%
Other Surety Bonds	25%
Group Accident & Health - Insured	0.5% to 4.0%
Group Accident & Health - ASO	6% for first $200,000 only
Group Dental - Insured	1.4% to 8.1%
Group Dental -ASO	0.6% to 15.5%
Group Life – Insured	1.4% to 8.1%
Group Limited Term Disability	0.5% to 15.0%
Stop-Loss	10%

III. MANAGEMENT AND CONTROL

Policyholder Ownership and Governance

As a mutual organization, the company is owned and under the ultimate governance of its policyholders. Under its articles of incorporation, every person, corporation, association, or partnership insured is a member, and has one vote. As of December 31, 1999, the company had 28,840 policyholders. Of this number, there were 14,752 members who had purchased their policies directly from the company of their own accord. The remaining 14,088 were policyholders by reason of worker's compensation pool service business, where Employers issued worker's compensation policies that were, in turn, 100% reinsured by industry members through various mandatory pooling mechanisms.

Policyholders may participate in the management and control of the company in accordance with the corporate articles and bylaws by attending and voting at annual or special meetings of the members. Members may vote by proxy, but the person or persons designated by proxy must be present in person to exercise proxy. Annual meetings of the company during the period under examination were held in accordance with its articles and bylaws. There were no special meetings of the members.

Attendance at annual policyholders' meetings held during the period under examination was as follows:

		Forms of Representation	
Meeting Date	**In Person**	**By Management Proxy**	**By Non-Management Proxy**
May 23, 1997	N.A.	1,638	-0-
May 22, 1998	N.A.	1,634	-0-
June 2, 1999	N.A.	5,657	-0-
May 24, 2000	N.A.	864	-0-

The minutes of the annual policyholders' meetings during the period under examination did not indicate the number of members present, only that more than the ten members necessary to constitute a quorum were present.

Plan of Affiliation with Liberty Mutual Insurance Company

Liberty Mutual Insurance Company exercises control of the company's board and of its executive direction.

Employers entered into an Affiliation and Contribution Note Purchase Agreement with Liberty Mutual on October 5, 1998, effective January 1, 1999. Liberty Mutual's sister company, Liberty Mutual Fire Insurance Company, is not a party to the affiliation agreement. This agreement replaced an affiliation arrangement with Nationwide Mutual Insurance Company that lasted from November 6, 1985, to December 31, 1998.

Within the context of this and other affiliated agreements, Liberty Mutual exercises control of Employers and its subsidiaries through directors aligned with Liberty Mutual, common executive management, and control of the reinsurance pool to which much of the direct premiums written by Employers are ceded and from which all net premiums written are assumed. The directors of Employers continue to be elected by the policyholders of Employers, as required by s. 611.53 (2), Wis. Stat. Election and reelection of nominees associated with Liberty Mutual on the Employers board have preserved the affiliation.

Board of Directors

The board of directors consists of ten members. The terms of directors are staggered so as to maintain three classes of expiry which are at, or as nearly possible at, one-third of the membership of the board, with each director having a term of three years. Members of the company's board of directors are typically members of other boards of directors in the holding company system. Senior officers are elected at the board's annual organizational meeting, and as positions are created or fall vacant. Officers other than those elected by the board are appointed by the senior officers.

Directors who are members of executive management collect no compensation specific to their service on any board. Dwight E. Davis, Jeffrey S. Padnos, and Michael E. Stroh, the only directors who are not members of executive management, each receive an annual stipend of $10,000 per year, $1,000 per year for service on each board committee, and $1,250 for each regular or special meeting attended.

At the examination date, the board of directors consisted of the following persons:

Name and Residence	Principal Occupation	Term Expiry
J. Paul Condrin III Walpole, Massachusetts	Senior Vice President and Chief Financial Officer Liberty Mutual Insurance Company	2001
Terry L. Conner Rye, New Hampshire	Senior Vice President and Chief Information Officer Liberty Mutual Insurance Company	2002
Dwight E. Davis* Mosinee, Wisconsin	President Greenheck Fan Corporation	2002
A. Alexander Fontanes Duxbury, Massachusetts	Senior Vice President and Chief Investment Officer Liberty Mutual Insurance Company	2002
James J. McIntyre Wausau, Wisconsin	President and Chief Operating Officer EMPLOYERS INSURANCE OF WAUSAU A Mutual Company	2001
Gary R. Gregg Milton, Massachusetts	Executive Vice President Liberty Mutual Insurance Company	2003
Edmund F. Kelly Weston, Massachusetts	President and Chief Executive Officer Liberty Mutual Insurance Company	2001
Christopher C. Mansfield Dedham, Massachusetts	Senior Vice President and General Counsel Liberty Mutual Insurance Company	2003
Jeffrey S. Padnos Holland, Michigan	President Louis Padnos Iron & Metal Company	2001
Michael E. Stroh Brookfield, Wisconsin	President Stroh Die Casting Company, Inc.	2003

* Mr. Davis was formerly President and Chief Operating Officer of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company

Committees of the Board

Article IV of the company's bylaws permits the appointment of executive, nominating, investment, and audit committees, and allows the formation of such other committees as the board may desire. At the time of this examination, the board of directors appointed an audit committee and a compensation committee. Neither of the committees was active during the period under examination.

Audit Committee

The designation of an audit committee of not less than 3 directors is permitted by Article IV, Section 4, of the bylaws. The committee meets from time to time as necessary. It is the function of this committee to maintain direct lines of communication between the board of directors and both the company's independent public accounting firm, and the internal audit department. The committee makes recommendations to the full board on the appointment of public accountants; reviews the financial statements of the company, its subsidiaries, and affiliates; inquires into the effectiveness of the company's internal auditing methods and procedures; and makes reports concerning its activities to the full board. Membership of the audit committee at the examination date was as follows: Jeffrey S. Padnos (Chairman), J. Paul Condrin III, Dwight E. Davis, A. Alexander Fontanes, Christopher C. Mansfield, and Michael E. Stroh.

Compensation Committee

The compensation committee meets from time to time as its responsibilities may require. It is the function of this committee to research and issue recommendations to the board as a whole concerning director and senior executive compensation. Oversight is also extended to matters affecting retirement programs and employee benefit plans, succession plans, and personnel matters relating to high-level executives. Membership of the salary and compensation committee at the examination date was as follows: Edmund F. Kelly (Chairman), Gary R. Gregg, and Michael E. Stroh.

Officers of the Company

The senior officers elected by the board of directors or appointed by the elected officers and serving at the time of fieldwork for this examination are listed below.

		1999 Compensation	
Name	**Office**	**Salary**	**Bonus**
Edmund F. Kelly	Chairman of the Board and Chief Executive Officer	$950,000	$1,500,000
Gary R. Gregg	Vice Chairman	525,000	181,000

Name	Office	1999 Compensation Salary	Bonus
James J. McIntyre	President and Chief Operating Officer	225,000	81,000
J. Stanley Hoffert	Vice President – General Counsel and Secretary	224,000	66,000
Elliot J. Williams	Vice President and Treasurer	190,000	48,000
Jay M. Anliker	Senior Vice President, Custom Accounts Underwriting	190,000	60,000
Robert D. Effinger	Senior Vice President and Chief Actuary	155,000	0
David L. Lancaster	Senior Vice President, Business Markets - Direct	138,000	33,000
Harold W. Larson	Senior Vice President, Custom Accounts Marketing	137,000	32,000
Michael H. Mayers	Senior Vice President, Business Services Group	191,000	64,000
Alfred P. Moore	Senior Vice President, Wausau Benefits	120,000	0
Mark A. Steinberg	Senior Vice President Sales Business Center	151,000	43,000
James P. VanEyck	Senior Vice President, Administrative Services	231,000	83,000
Martin J. Welch	Senior Vice President, Business Markets – Broker	156,000	39,000

IV. AFFILIATED COMPANIES

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company is a member of the Liberty Mutual Group, a multinational holding company system under the dual control of Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company (hereinafter also, “LMFIC”). As of December 31, 1999, Liberty Mutual, and its sister company, LMFIC, exercised direct or indirect ownership or control of 111 legal entities, including 98 stock corporations, 3 mutual insurance companies, 4 common law trusts, 2 not-for-profit corporations, 2 limited partnerships, and 2 limited liability companies. The Liberty Mutual Group is a diversified provider of financial services to businesses and individuals, with 23 property and casualty insurers, 6 life and health insurers, 5 health maintenance organizations, 35 insurance brokerages and agencies, and 10 providers of ancillary insurance-related services. As a consolidated group, it is the largest writer of workers’ compensation insurance in the United States. Its international units operate in 13 countries, with a significant presence in Argentina, Brazil, Canada, Colombia, Japan, Mexico, the United Kingdom, and Venezuela. The other 32 entities conduct a diversified range of activities, including mutual fund investment services, investment counseling services, and institutional asset management.

Employers entered into an affiliation agreement with Liberty Mutual on October 5, 1998, which was consummated effective January 1, 1999. Liberty Mutual’s sister company, LMFIC, is not party to the affiliation agreement. Within the context of this agreement, and certain subsequent agreements, Liberty Mutual exercises control of Employers and its subsidiaries through nomination of the various boards of directors, common executive management, and control of an affiliated reinsurance pool in which Employers participates. The directors of Employers continue to be elected by the policyholders of Employers, as required by s. 611.53 (2), Wis. Stat. This arrangement succeeded an affiliation with Nationwide Mutual Insurance Company that dated from November 6, 1985.

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company exercises a leadership role over a distinct holding company subsystem within the Liberty Mutual Group, commonly known as the Wausau Insurance Companies. Employers does not own any subsidiaries, nor does it exercise “control” of any affiliate as that term is defined by 601.01(13), Wis. Statutes. Its leadership role exists by virtue of its position as the largest member of that holding company subsystem, which subsystem may be regarded as being based principally on a shared brand identity. The Wausau Insurance Companies consists of 25 entities, including 6 property and casualty insurers, 2 health maintenance organizations, 13 insurance brokerages or agencies, 3 providers of ancillary insurance services, and a holding company.

The Wausau Insurance Companies’ marketing emphasis is on middle market and small business commercial risks solicited through independent agents. The other source of distinction is that the base of policyholder-owners of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company is different from the respective bases of policyholder-owners of Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company. The operation of the inter-company reinsurance agreement described in Part V of this report, the unified direction of executive management, and control of the board by consent of Employers’ policyholders diminish the practical effects of these distinctions.

The size and complexity of the Liberty Mutual Group makes the description of each legal entity within the holding company system impractical in the context of this examination report. Therefore, this report will confine its discussion of specific entities to the ultimate parents of the holding company system, Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company, and other affiliates with whom Employers has a significant contractual or operational relationship. Written agreements with affiliates will be described following the summary of companies. A chart of all entities in the Liberty Mutual Group at or above the threshold of annual statement reporting requirements is presented at the end of this section of the report.

Parents of the Liberty Mutual Group

Liberty Mutual Insurance Company

Liberty Mutual Insurance Company was incorporated under the laws of the Commonwealth of Massachusetts on January 1, 1912, and commenced business on July 1, 1912.

The incorporator was Liberty Mutual Fire Insurance Company, which advanced all of the organizational expenses and initial financing.

Liberty Mutual is a diversified property and casualty insurer of commercial and personal lines, with distribution primarily by independent agents who confine their representation exclusively to companies in the Liberty Mutual Group. The company is licensed in all 50 U.S. states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and in various other foreign countries. Headquarters are maintained in Boston, Massachusetts.

As of December 31, 1999, Liberty Mutual reported assets of $19,879,383,812, liabilities of $14,329,938,118, policyholders' surplus of $5,549,445,693, and net income of $173,094256. Liberty Mutual was examined concurrently with EMPLOYERS INSURANCE OF WAUSAU A Mutual Company as of December 31, 1999, and the results of that examination were expressed in a separate report issued by the Massachusetts Division of Insurance.

Liberty Mutual Fire Insurance Company

Liberty Mutual Fire Insurance Company was incorporated under the laws of the Commonwealth of Massachusetts on October 31, 1908, and commenced business on November 5, 1908. Although elected in a separate ballot by LMFIC policyholders, the boards of Liberty Mutual and LMFIC have long been composed of the same persons.

LMFIC's current business emphasis is on personal home and automobile lines, with distribution primarily by independent agents who confine their representation exclusively to companies in the Liberty Mutual Group. The company is licensed in all 50 U.S. states, the District of Columbia, Puerto Rico, and Canada. Headquarters are maintained in Boston, Massachusetts.

As of December 31, 1999, LMFIC reported assets of $2,808,527,197, liabilities of $1,951,731,264, policyholders' surplus of $856,795,933, and net income of 39,357,739. LMFIC was examined concurrently with EMPLOYERS INSURANCE OF WAUSAU A Mutual Company as of December 31, 1999, and the results of that examination were expressed in a separate report issued by the Massachusetts Division of Insurance.

Significant Affiliates

Liberty Mutual Capital Corporation

Liberty Mutual Capital Corporation was incorporated under the laws of the state of Delaware. The corporation operates as a downstream source of capital for Liberty Mutual Insurance Company and its subsidiaries and affiliates. The corporation raises capital through the issuance of commercial paper and other debt instruments that are guaranteed by Liberty Mutual Insurance Company. With capital raised from the public markets, together with a line of credit from Liberty Mutual, the corporation provides loans and lines of credit to members of the Liberty Mutual Group. The corporation uses derivative financial instruments to hedge interest rate risk and reduce interest rate expense. The corporation is a wholly-owned subsidiary of Liberty Mutual Insurance Company. As of December 31, 1999, the corporation reported assets of $288,608,369, liabilities of $270,969,962, stockholders' equity of $17,638,407, and a net income of $163,040.

Wausau Service Corporation

Wausau Service Corporation was incorporated under the laws of the state of Wisconsin as the "Wausau Insurance Finance Corporation" on September 21, 1959. It was initially organized to finance insurance premiums, a function that had been handled through the Insurance Finance Company, an independently owned corporation. Within only a few years, with the introduction of company installment plans, the corporation's original purpose became largely obsolete. From 1964 to the formation of Countrywide Services Corporation in 1971, WSC provided loss adjustment, safety, and health services to self-insured accounts on behalf of the Wausau Insurance Companies. Thereafter, for a time, the corporation essentially fell dormant. Then, in late 1977, it was decided to reactivate WSC as a downstream holding company. On November 18, 1977, WSC's board of directors voted to accept transfer of ownership from EMPLOYERS INSURANCE OF WAUSAU A Mutual Company (then known as "Employers Mutual Liability Insurance Company of Wisconsin") of the capital stock of all affiliates except Wausau Insurance Company (U.K.) Limited (then known as "Employers of Wausau (U.K.) Ltd.") effective January 2, 1978. On December 31, 1998, pursuant to a Stock Purchase Agreement dated

October 5, 1998, Wausau Service Corporation, together with certain of its subsidiaries, was sold to Liberty Mutual.

As of December 31, 1999, the corporation reported assets of $226,708,000, liabilities of $39,937,000, stockholders' equity of $186,771,000, and a net income of $1,383,000.

Prevea Health Insurance Plan, Inc.

Prevea Health Insurance Plan, Inc., (hereinafter also, "PHP"), headquartered in Green Bay, Wisconsin, is a for-profit health maintenance organization domiciled in Wisconsin. It was incorporated on October 23, 1996, under ch. 611, Wis. Stat., and commenced business on November 13, 1996. Enrollments began in the second quarter of 1997. The service area is comprised of seven counties in northeastern Wisconsin. Of the 3,000 common shares in two classes issued and outstanding, 2,000 Class A common shares are held by Prevea Health Services, Inc., and 1,000 Class B common shares are held by Wausau Service Corporation. Prevea Health Services, Inc., is a Wisconsin-domiciled corporation controlled by Prevea Clinic, Inc. (50%), St. Mary's Hospital Medical Center of the Hospital Sisters of the Third Order of St. Francis (25%), and St. Vincent Hospital of the Hospital Sisters of the Third Order of St. Francis (25%). The 1999 statutory annual statement of PHP reported admitted assets of $1,510,414, liabilities of $50,395, total net worth of $1,460,019, and a net loss of $39,891.

Wausau (Bermuda) Limited

Wausau (Bermuda) Limited is a Bermuda-domiciled captive insurer incorporated in 1997. It is marketed as a means for middle market clients to gain the advantages of the off-shore captive structure without the commitment of capital and administrative expense required to establish their own captive. Through reinsurance, funds held by the captive on behalf of multiple clients are segregated by client and any underwriting profit or investment income ultimately accrues back to the client. The U.S.-based personnel of Wausau Service Corporation provide underwriting, claims management, and loss control services.

As of December 31, 1999, the corporation reported assets of $11,743,165, liabilities of $6,989,303, stockholders' equity of $4,753,862, and a net loss of $(412,210).

Wausau Business Insurance Company

Wausau Business Insurance Company (hereinafter also, “WBIC”), was incorporated on June 30, 1987, as the “Westwood Insurance Company,” under the laws of the state of Illinois to effect a conversion of Canners Exchange Subscribers, an Illinois reciprocal organized in 1907, to a stock company on July 1, 1987. Canners Exchange Subscribers, the predecessor to WBIC, became affiliated with Employers on January 1, 1983, when all of the outstanding shares of its attorney-in-fact corporation, Lansing B. Warner, Inc., were purchased by Wausau Service Corporation. On September 1, 1990, the company redomiciled to Wisconsin and changed its name to that presently used.

WBIC is a multiline property and casualty company licensed in all 50 U.S. states and the District of Columbia. Within the Wausau Insurance Companies, WBIC functions as a “preferred plus” company, insuring risks that Wausau Service Corporation’s underwriters decide are better than those ordinary or common to the class of risk. WBIC has a 0.4% participation in the Liberty Mutual Group’s inter-company reinsurance agreement. The corporation is a wholly owned subsidiary of Wausau Service Corporation. The 1999 annual statement reported admitted assets of $118,134,356, liabilities of $86,696,300, policyholder surplus of $31,438,056, and a net income of $5,619,218. WBIC was examined concurrently with Employers as of December 31, 1999, and the results of that examination were expressed in a separate report.

Wausau General Insurance Company

Wausau General Insurance Company (hereinafter also, “WGIC”) was incorporated under the laws of the state of Illinois on October 10, 1972, as the Illinois Employers Insurance Company of Wausau, and commenced business on November 29, 1972. On April 30, 1991, the name was changed to that presently used.

WGIC is a multiline property and casualty company licensed in 9 U.S. states. The worker’s compensation line of business provided over 99% of direct premiums written in 1999. WGIC has a 0.4% participation in the Liberty Mutual Group’s inter-company reinsurance agreement. The corporation is a wholly owned subsidiary of Wausau Service Corporation. The 1999 annual statement reported admitted assets of $122,428,964, liabilities of $78,441,594, policyholders' surplus of $43,987,370, and a net income of $1,993,366. WGIC was examined concurrently with Employers as of December 31, 1999, and the results of that examination were expressed in a separate report.

Wausau Underwriters Insurance Company

Wausau Underwriters Insurance Company (hereinafter also, "WUIC") was incorporated on September 27, 1979, as the "Wausau Insurance Company," under the laws of the state of Wisconsin to effect a change in the corporate domicile of Volkswagen Insurance Company from Arkansas to Wisconsin. The name of the corporation was changed to that presently used when the change of domicile was consummated on January 1, 1980.

The company had its origins in the Select Risk Insurance Company, an Arkansas-domiciled insurer formed in 1959 to become successor to the Select Risk Mutual Insurance Company, which had itself been organized in August 1954. Conversion from the mutual plan to a stock corporation was completed on July 1, 1959. The corporate title underwent many changes over the years. The corporate title was changed on October 1, 1959, to Southern Grange Insurance Company; on February 11, 1963, to VICO Insurance Company; on November 17, 1964, to Volkswagen Insurance Company; and in mid-1978 to Wausau Underwriters Insurance Company. Administrative offices were moved from St. Louis, Missouri, to Wausau, Wisconsin, in late 1980. WUIC became affiliated with Employers when it was purchased from VICO Corporation, of Englewood Cliffs, New Jersey, on December 30, 1977.

WUIC is a multiline property and casualty company licensed in all 50 U.S. states Puerto Rico, the U.S. Virgin Islands, and the District of Columbia. A small amount of business is also conducted in various foreign jurisdictions. Within the Wausau Insurance Companies, WUIC functions as a preferred company, insuring risks that Wausau Service Corporation's underwriters decide are better than that ordinary or common to the class of risk, but with aspects in need of improvement. WUIC has a 0.4% participation in the Liberty Mutual Group's inter-company reinsurance agreement. The corporation is a wholly owned subsidiary of Wausau Service Corporation. The 1999 annual statement reported admitted assets of $194,149,145, liabilities of $125,495,558, policyholders' surplus of $68,653,587, and a net income of $9,327,364. WUIC was examined concurrently with Employers as of December 31, 1999, and the results of that examination were expressed in a separate report.

Written Agreements with Affiliates

In addition to common staffing and management control, Employers' relationship to its affiliates is affected by various written agreements and undertakings. Reinsurance agreements are described in the reinsurance section of the report. A brief summary of the other agreements and undertakings follows, arranged by counterparty and effective date.

Liberty Mutual Insurance Company

Affiliation and Contribution Note Purchase Agreement

Liberty Mutual Insurance Company and EMPLOYERS INSURANCE OF WAUSAU A Mutual Company entered into an Affiliation and Contribution Note Purchase Agreement dated October 5, 1998. The agreement comprehensively sets forth the rights and obligations of the parties under their affiliation and the sequence of transactions necessary to execute the affiliation as envisioned by the parties.

Contribution Note

Effective December 31, 1998, Liberty purchased a contribution note from Employers in the amount of $220,000,000. The note, due on December 31, 2005, pays interest only in the interim on a semi-annual basis. The interest rate was fixed on the date of issue at 4.52%, which was then the Applicable Federal Rate for a seven-year note under Section 1274(d) of the 1986 Internal Revenue Code.

Management Agreement

Employers and Liberty Mutual entered into a Management Agreement effective January 1, 2000. Under this agreement, Liberty Mutual is to provide all services essential to the day-to-day operation of Employers as requested by Employers. Employers is to reimburse Liberty Mutual a percentage of the total reasonable expenses, costs, losses, and disbursements, excluding claim payments, incurred by Liberty Mutual in its operation and in the operation of its subsidiaries. This allocation percentage is to be consistent with Employers' customary cost allocation practices and is to be supported by Employers' current expense allocation model, which model substantially complies with statutory accounting guidelines promulgated by the National Association of Insurance Commissioners. Settlements of fees and expenses are to be made within 45 days of the end of each calendar quarter.

Either party may terminate this agreement at any time with 90 days' written notice to the other. Only 45 days' notice is required in the event of the insolvency of either party. Liberty Mutual may terminate the contract immediately if Employers fails to make payment of fees and expenses and such failure has not been cured within 30 days after the due date, or if Employers' participation in the Liberty Mutual Group Pool is terminated and Employers is no longer affiliated with the Liberty Mutual Group. In the event of termination, Liberty Mutual shall continue to provide such services for a period of time that is reasonably necessary to transfer service responsibilities to a new party.

Reciprocal Claims Service Agreement

Effective February 14, 2000, Employers entered into a Reciprocal Claims Service Agreement with Liberty Mutual Insurance Company and other members of the Liberty Mutual Group to facilitate a combination of surety and fidelity claim operations under the control of Liberty Mutual Insurance Company. Under this agreement, Liberty Bond Services, a division of Liberty Mutual Insurance Company directs and supervises the fidelity and surety claim operations of all parties to the agreement. Each party appoints the others as its authorized agent, and grants each such party authority to act in its name and in its stead with respect to fidelity and surety claims. Each such party shall serve as the trustee and fiduciary of the others in servicing claims under this agreement. All parties agree to keep parties to this agreement fully advised of work performed on behalf of the others pursuant to reporting guidelines established by Liberty Bond Services. Each party to the agreement continues to remain responsible for payment of their own unallocated loss adjustment expenses. Allocated loss adjustment expenses and loss expenses incurred remain the responsibility of the party that underwrote the bond or policy. Parties to the agreement agree to preserve the confidentiality of information to which they receive access under this agreement and agree to use such information solely as directed by Liberty Bond Services for the performance of this agreement.

Wausau Service Corporation

Employers entered into a Management Agreement with Wausau Service Corporation effective December 31, 1998, which was amended effective January 1, 2000. The terms of this agreement are largely the same as those of the Management Agreement with Liberty Mutual. This agreement was amended to terminate the exclusivity of Wausau Service Corporation's appointment as a provider of management services. The employees that provide services to the Wausau Insurance Companies are in the midst of a comprehensive reorganization to integrate them into the Liberty Mutual Group, and thereby eliminate the duplication of services and take advantage of the respective organizations' strengths. The employees of Wausau Service Corporation that are anticipated to remain after the reorganization are gradually being reassigned to Liberty Mutual. Eventually, Wausau Service Corporation will not have any employees. Provisions for the curtailment and addition of services were added to the agreement to facilitate this transition. In the event of any conflict or inconsistency between the provisions of the management agreement with Liberty Mutual and the management agreement with Wausau Service Corporation, the conflict or inconsistency will be resolved in favor of the provisions of the contract with Liberty Mutual.

Liberty Mutual Investment Advisors LLC

Cash Management Agreement

Employers entered into a Cash Management Agreement with Liberty Mutual Investment Advisors LLC dated January 28, 2000. Under this agreement, Liberty Mutual Investment Advisors LLC manages an investment pool on behalf of participating members of the Liberty Mutual Group, investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. and Canadian federal governments with a maximum duration of 365 days from the date of purchase. The investment pool functions in a manner analogous to a short-term bond mutual fund. A participant may terminate the agreement at the end of any business day upon prior written notice to the manager, or at any time by Liberty Mutual Investment Advisors LLC upon 30 days' written notice to the company. If the company should ever become insolvent, the company's statutory successor in interest could withdraw all or any portion of the company's proportionate share of the assets in the investment pool.

Investment Management Agreement

Effective May 1, 2000, EMPLOYERS INSURANCE OF WAUSAU A Mutual Company entered into an investment management agreement with Liberty Mutual Investment Advisors LLC. Under this agreement, Liberty Mutual Investment Advisors LLC is to act as the company's agent and attorney-in-fact with respect to its investment portfolio. Subject to the Employers' board of directors and investment guidelines, Liberty Mutual Investment Advisors LLC has complete day-to-day discretionary control, including the power to make acquisitions and disposals of investments, and issue instructions to brokers and custodians. Liberty Mutual Investment Advisors LLC is to be reimbursed for all custody related charges and wire transfer fees related to the account, including, but not limited to, commission expenses and transaction fees imposed by the U.S. Securities and Exchange Commission. Liberty Mutual Investment Advisors LLC is to receive a monthly management fee equivalent to 3.4 basis points on an annualized basis. In the event that compensation is determined to be unfair and unreasonable in relation to actual expenses incurred in managing the account, the amount of compensation will be adjusted by mutual agreement.

The agreement is to be construed in accordance with applicable federal law and, to the extent not preempted, the laws of the State of Wisconsin. Liberty Mutual Investment Advisors LLC may terminate this agreement at any time upon 90 days' advance written notice. Employers may terminate this agreement at any time upon written notice to Liberty Mutual Investment Advisors LLC, but Liberty Mutual Investment Advisors LLC shall have a reasonable time, not to exceed 90 days, to transfer assets to a custodian selected by Employers.

Liberty Mutual Capital Corporation

Employers, together with its affiliates, Wausau Service Corporation, Wausau Business Insurance Company, Wausau General Insurance Company, and Wausau Underwriters Insurance Company, entered into a Revolving Loan Agreement with Liberty Mutual Capital Corporation as of December 31, 1998. Under this agreement, Liberty Mutual Capital Corporation agrees to provide Employers and its specified affiliates, collectively, with a line of credit of up to $50,000,000. Loans under the agreement must be in a minimum principal amount of $25,000 and in integral multiples of $25,000, as the borrowers may specify, up to but not exceeding the $50,000,000 aggregate line of credit. The current balances of loans to each borrower are to be evidenced by a single note from each borrower. The obligations of each borrower are several and not joint, that is, each borrower is solely responsible for its own loan balance and related obligations and not those of any other borrower utilizing the aggregate line of credit. The rate of interest is based on the short-term funding facilities of Liberty Mutual and Liberty Mutual Capital Corporation, but in no event to exceed the average prime rate published from time to time in the Wall Street Journal plus 5% per annum.

Prevea Health Insurance Plan, Inc.

Employers entered into an administrative service agreement with Prevea Health Insurance Plan, Inc., effective in 1996. Under this agreement, Employers provides certain services to PHP including, but not limited to, marketing, underwriting and forms development, premium collection, claims administration, actuarial advice, data processing, provider relations and reimbursement, regulatory compliance, medical management, and grievance services.

Physicians Plus Insurance Corporation

Employers entered into an administrative service agreement with Physicians Plus Insurance Corporation (hereinafter also, "PPIC"), effective January 1, 2000. Under this agreement, Employers provides certain services to PPIC including, but not limited to, enrollment, premium collection, claims and encounters administration, and data systems services.

Wausau Business Insurance Company

Wausau Business Insurance Company is the beneficiary of a series of capital and surplus guaranties undertaken by Employers to facilitate the acquisition of certificates of authority in certain jurisdictions. Guarantees made to Connecticut, Maine, and New Jersey, which were in force as of December 31, 1996, have expired or been replaced with a guaranty from Liberty Mutual Insurance Company. Guaranties made by Employers that were in force at the date of this examination are summarized as follows:

State	Date of Agreement	Minimum Policyholders' Surplus Guaranteed	Duration of Guaranty
NC	02/07/91	$4,500,000	Duration of license
OK	09/05/90	$8,000,000	None specified
VA	02/06/92	$4,500,000	Duration of license

Wausau Insurance Companies

Expense Allocation Agreement

Employers entered into an expense allocation agreement with the other members of the Wausau Insurance Companies effective January 1, 1992. These companies share various administrative services, office facilities, and equipment, with expenses being apportioned among the applicable member companies.

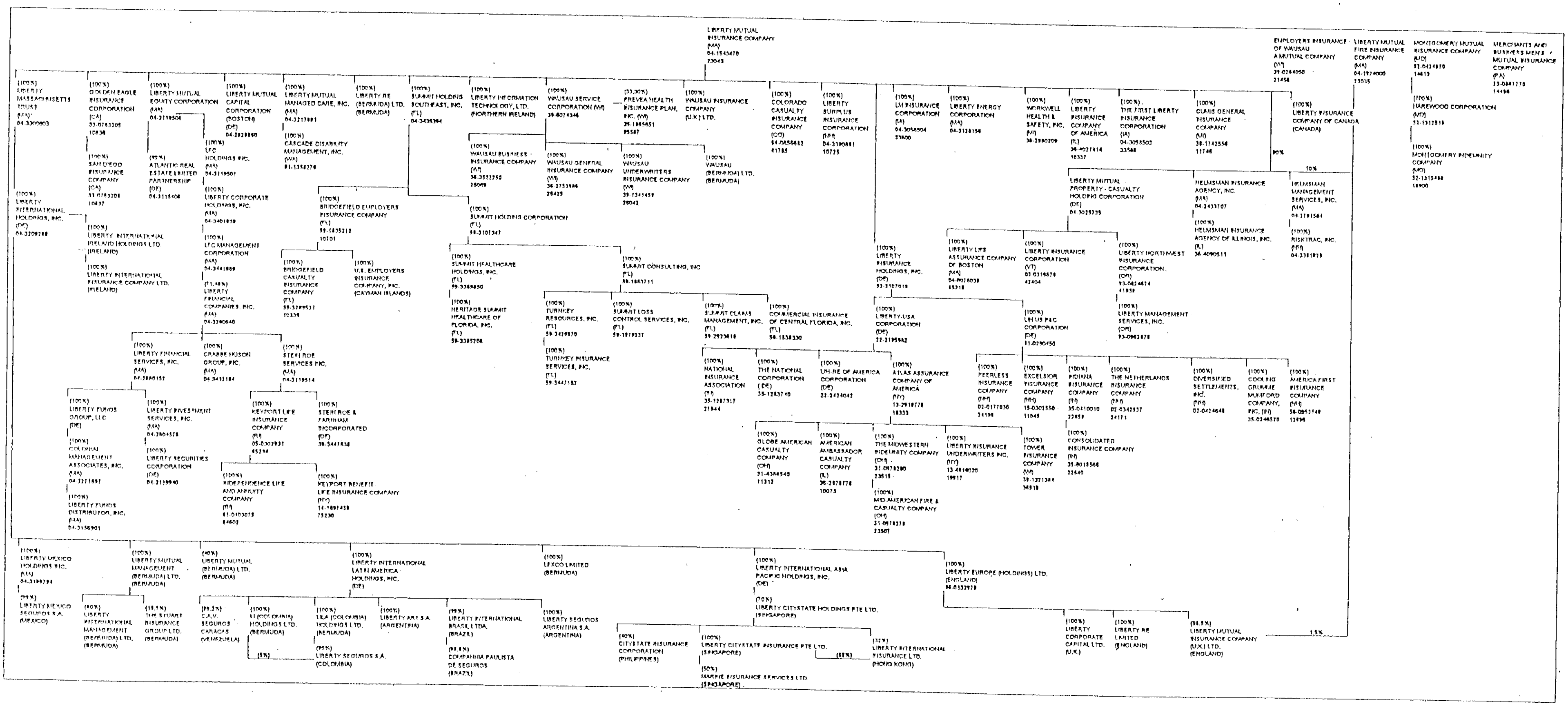
Temporary Help Agencies Producer Agreement

The members of the Wausau Insurance Companies are party to a Temporary Help Agencies Producer Agreement among themselves and with Yunker Innovative Options, Inc. effective August 1, 1996, to provide temporary help service for the placement of certain insurance business produced by Yunker Innovative Options, Inc. and agencies affiliated with the Wausau Insurance Companies.

Annual Statement for the year 1999 of the Employers Insurance of Wausau A Mutual Company

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



V. REINSURANCE

The company participates in a pooling arrangement with certain of its affiliates. The pool participants cede 100% of their net premiums written, losses, loss adjustment expenses, and underwriting expenses to Liberty Mutual Insurance Company. Liberty Mutual, as the lead company and pool manager, administers all aspects of the pooled business, including placement of reinsurance with nonaffiliated insurers. The net pooled business is then distributed according to the participations listed below. Income and expenses related to investment operations and corporate taxes, including federal income taxes, are not included in pooling.

Employers cedes premiums to certain affiliated and nonaffiliated insurers before pooling, so that the pool is insulated from exposure on certain risks. Employers assumes premiums from certain affiliated and nonaffiliated insurers before pooling, so that the pool thereby assumes certain other risks. In addition to reinsurance that Employers assumes and cedes for its own account prior to pooling, Employers receives protection from the reinsurance that Liberty Mutual obtains on behalf of the Liberty Mutual Pool.

All voluntary contracts reviewed by examiners contained proper insolvency provisions. Involuntary arrangements, such as state auto insurance facilities, mine subsidence funds, and other involuntary excess funds have provisions deemed appropriate by the governmental authorities that establish and administer them. Significant treaties and arrangements are summarized as follows.

Affiliated Pooling Agreement

Participations:

	1/1/99	**1/1/00**
Liberty Mutual Insurance Company	65.95%	63.00%
EMPLOYERS INSURANCE OF WAUSAU A Mutual Company	13.00%	16.00%
Liberty Mutual Fire Insurance Company	10.00%	10.00%
Liberty Insurance Corporation	6.00%	6.00%
Golden Eagle Insurance Corporation	2.50%	2.50%
Montgomery Mutual Insurance Company	0.70%	0.70%
Wausau Business Insurance Company	0.40%	0.40%
Wausau General Insurance Company	0.40%	0.40%
Wausau Underwriters Insurance Company	0.40%	0.40%
Merchants and Business Men's Mutual Insurance Company	0.25%	0.20%

LM Insurance Corporation	0.20%	0.20%
Montgomery Indemnity Company	0.10%	0.10%
The First Liberty Insurance Corporation	0.10%	0.10%
100% Quota Share Affiliated Companies:		
Liberty Lloyds of Texas Insurance Company	0.00%	0.00%
Liberty Insurance Company of America	0.00%	0.00%
Liberty Personal Insurance Company	0.00%	0.00%
Liberty Surplus Insurance Corporation	0.00%	0.00%
Liberty Insurance Underwriters, Inc.	0.00%	0.00%
Colorado Casualty Insurance Company	0.00%	0.00%
Bridgefield Employers Insurance Company	0.00%	0.00%
Bridgefield Casualty Insurance Company	0.00%	0.00%
Total Liberty Mutual Group Pool	100.00%	100.00%

Lines Covered: All

Items Included: Losses, loss adjustment expenses, underwriting expenses, salvage and subrogation recoveries, assessments, taxes, and policyholder dividends

Effective: January 1, 1999, as amended effective January 1, 2000

Termination: At any time with 120 days' written notice by any party. Each participant shall remain liable with respect to all cessions in force on the effective date of termination.

Additional Comments: Any dispute arising out of this agreement shall be settled through arbitration.

Canadian business participations are limited to Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company, which have 90% and 10% participation, respectively.

Pre-Pool Reinsurance Program

Affiliated Ceding Contracts

1. Type: Environmental Aggregate Excess of Loss

   Reinsurer: Liberty Mutual Insurance Company

   Scope: The company's participative share in the Liberty Mutual Pool resulting from any environmental losses occurring during the term of this contract, until such obligations are fully performed and discharged. "Environmental Losses" as defined in this contract means incurred loss and loss adjustment expenses relating to those pollution, asbestos, and other mass tort claims classified as environmental in the reinsurer's internal management financial statements applied consistently using the same procedures and definitions as applied in 1997 and 1998.

   Retention: $26,000,000 net environmental loss incurred each and every calendar year covered by the treaty

Coverage:	100% of the company's net environmental losses incurred through its participation in the Liberty Mutual Pool in excess of $26,000,000 for each calendar year covered by the treaty
Premium:	$1,000,000 for each calendar year covered by the treaty, due in quarterly installments of $250,000 each
Commissions:	None
Effective:	January 1, 1999
Termination:	December 31, 2001

<u>Nonaffiliated Ceding Contracts</u>

2. Type: 100% Quota Share

Reinsurer:	Nationwide Indemnity Company
Scope:	All liabilities arising out of or relating to discontinued operations of the company. These discontinued operations are specifically defined in Exhibit A of the contract.
Retention:	None
Coverage:	100% of the liabilities arising out of or relating to the discontinued operations of the company
Premium:	The consideration paid for coverage will be computed as follows: (i) the total policy reserves on business ceded hereunder; plus (ii) a risk premium of $294,000,000; less (iii) the paid reinsurance recoverable balance as of the reinsurance effective date; less (iv) the unpaid reinsurance recoverable balance as of the reinsurance effective date. On December 31, 1998, the company will pay a deposit premium of not less than $365,000,000, or such greater amount as mutually agreed. A final settlement of the balance due the reinsurer will be made on March 1, 1999. This final settlement will bear and include simple interest at the 60-Day Commercial Paper Rate indicated in Federal Reserve Statistical Release H.15(519) on the date payment is made from December 31, 1998 until the date of payment.
Commissions:	None
Effective:	December 31, 1998
Termination:	Upon termination of all of the policy liabilities ceded hereunder; or, by mutual written agreement of the parties; or, at the option of the ceding company, upon the occurrence of the commencement of a rehabilitation, liquidation, conservation, or other delinquency proceeding against the reinsurer, or the existence of any

condition that is not promptly cured upon notice that would provide reasonable grounds for such proceedings.

Additional Comment: Nationwide Mutual Insurance Company issued an unconditional, irrevocable, and unlimited guaranty to EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, as primary obligor and not merely as surety, for the complete and timely payment and performance of each and every obligation of the reinsurer under this reinsurance agreement. The guaranty is one of payment on demand, not of collection from the reinsurer.

3. Type: Commercial Insurance Group Property Underlying Per Risk Excess of Loss Reinsurance Contract

Reinsurer: As of December 31, 1999, participation was as follows:

AXA Reinsurance Company	5.5%
Erie Insurance Exchange	25.0%
GE Reinsurance Corporation	12.0%
Hannover Ruckversicherungs AG	10.0%
Odyssey America Reinsurance Corporation	35.0%
Underwriters at Lloyd's of London	12.5%
Total	100.0%

Scope: Property business related to policies produced by the Commercial Insurance Group Division

Retention: $1,000,000 per risk per loss, subject to a $2,000,000 aggregate retention

Coverage: $2,000,000 per risk and $6,000,000 per loss occurrence

Premium: Deposit premium of $4,580,000; actual premium is the greater of $3,664,000 or 11% of subject net earned premium

Commissions: The company is allowed a contingent profit commission of 40% of the net profit as computed by the agreement

Effective: September 1, 1999

Termination: The contract is scheduled to expire on September 1, 2000. The company may cancel on July 1, 2000, whereupon the minimum and deposit premiums would be prorated. The company may terminate the participation of any reinsurer with 30 days' prior written notice in instances of a reinsurer's financial distress or change in control.

Additional Comment: In the event that the contract is not renewed, the company may opt to accept run-off coverage not to exceed 18 months in all for policies in force as of September 1, 2000.

Aon Re Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

4. Type: Property Automatic Facultative Reinsurance Agreement

Reinsurers: As of December 31, 1999, participation on the two layers was as follows:

Participant	1st Layer	2nd Layer
Berkley Insurance Company	32.5%	32.5%
Continental Casualty Company	20.0%	30.0%
Gerling Global Reinsurance Corporation (U.S. Branch)	22.5%	10.0%
Hartford Fire Insurance Company	18.5%	17.5%
United Fire & Casualty Company	6.5%	10.0%
Total	100.0%	100.0%

Scope: Commercial property business

Retention: First Layer - The company has the option to retain the following ultimate net loss amount per risk per occurrence: $250,000; $500,000; or $1,000,000

Second Layer - The company shall have the option to retain and be liable for the first $2,000,000 ultimate net loss per risk, per occurrence.

Coverage: First Layer - The reinsurer is liable for all losses exceeding the selected retention level but not to exceed $1,500,000 per risk and $4,500,000 per occurrence. The retention amount is determined on a policy-by-policy basis by the underwriting department.

Second Layer -The reinsurer shall be liable for the amount by which such loss exceeds the company's retention. The liability of the reinsurer shall not exceed $1,000,000 ultimate net loss per risk and $3,000,000 in aggregate on any one loss occurrence.

Premium: Premiums are ceded to reinsuers on a pro rata basis corresponding to their participation percentage as set out in a schedule in the Automatic Facultative contract.

Commissions: Commission is calculated as follows:

First Layer - 30% of net profits after reinsurers' expense of 20% calculated on a modified three-year block basis, commencing January 1, 1997 and going through July 1, 2000. This commission will include total commission generated from the two previous Property Automatic Facultative Agreements.

Second Layer - 30% of net profits after reinsurers' expense of 20% calculated on a modified three-year block basis, commencing January 1, 1997 and going through July 1, 2000.

	This commission will include total commission generated from the previous two Property Automatic Facultative Agreements.
Effective date:	January 1, 1999
Termination:	July 1, 2000
Additional Comments:	Guy Carpenter & Company, Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.
5. Type:	Property Automatic Facultative Reinsurance Agreement
Reinsurers:	As of December 31, 1999, participation on this contract was as follows:

American Re-Insurance Company	25.00%
General Reinsurance Corporation	25.00%
Swiss Reinsurance American Company	12.50%
United Fire & Casualty Company	12.50%
XL Reinsurance America Inc.	18.75%
Total	93.75%

Scope:	All policies classified as Property insurance on an HPR risk written by the company's HPR/Property Special Risk Department, excluding Flood and Earthquake.
Retention:	This agreement shall have an attachment point of $200,000,000. The company shall retain a minimum of $75,000,000 each risk, net and treaty of the $200,000,000 below the attachment point.
Coverage:	The reinsurer will indemnify the company: 50% of $100,000,000, each risk, each occurrence, excess of $200,000,000 each risk, each occurrence, subject to an occurrence limitation of three (3) times limit (being $150,000,000).
Premium:	The risks bound under this agreement shall be rated by applying a Net Per Million* charge to the Amount of Reinsurance Accepted as determined by the chart below:

Total Insured Value**	Price per Million Based on Occupancy: Non-manufacturing	Price per Million Based on Occupancy: Manufacturing and Warehousing
$100,000,001-200,000,000	$100 net per million	$125 net per million
$200,000,001-300,000,000	$125 net per million	$150 net per million
$300,000,001-400,000,000	$150 net per million	$175 net per million
$400,000,001-500,000,000	$175 net per million	$200 net per million
$500,000,001-750,000,000	$200 net per million	$225 net per million
Over $750,000,000	Call for Approval	Call for Approval

* "Net Per Million" is defined as the dollar price, net of commission, per $1,000,000 of reinsurance accepted.

** "Total Insured Value" is defined as the total of all property damage and time element coverage where a corresponding specific dollar amount is shown in the original policy.

Commissions:	None
Effective date:	July 1, 1999
Termination:	Continuous, until terminated by either party giving at least 90 days' notice in writing. The company may terminate the participation of any reinsurer on a cut-off basis with 30 days' prior written notice in instances of a reinsurer's financial distress or change in control.

6. Type: Special Surplus Reinsurance Contract

Reinsurers: As of December 31, 1999, participation on this contract was as follows:

GE Reinsurance Corporation	25.00%
Gerling Global Reinsurance Corporation of America	12.50%
Partner Reinsurance Company of the U.S.	5.50%
United Fire & Casualty Company	7.00%
XL Reinsurance America Inc.	20.00%
Zurich Reinsurance (North America), Inc.	30.00%
Total	100.00%

Scope:	Property lines including but not limited to the following: Fire and Allied Lines, Inland Marine, Difference in Conditions, Section 1 of Multi-Peril, Burglary and Theft, Glass and Water Damage.
Retention:	The retention amount is determined on a policy-by-policy basis by the underwriting department, but there is a minimum retention of $100,000 per risk.
Coverage:	Each cession under this treaty shall be limited to four times the net retention of the company, per risk, but is limited to $3,000,000 per risk. The reinsurer's liability shall not exceed $15,000,000 for any one occurrence.
Premium:	Premiums are ceded to the reinsurers on a pro rata basis corresponding to their participation percentages.
Commissions:	Minimum commission of 25% at a 58.33% loss ratio, increasing 1% commission for every 1% decrease in loss ratio to 30% commission at a 53.33% loss ratio; then increasing 0.75% commission for every 1% decrease in loss ratio a maximum commission of 47.5% at a 30% loss ratio. The deficit or credit balance carries forward until all premiums are earned and all losses are finally settled.
Effective date:	January 1, 1998

	Termination:	Continuous, subject to any party giving not less than 90 days' notice of cancellation as of January 1, 1999, or any January 1st thereafter. The company may terminate the participation of any reinsurer with 30 days' prior written notice in instances of a reinsurer's financial distress or change in control.
7.	Type:	Three-layer Property Per Risk Excess of Loss
	Reinsurer:	(See Table A at the end of this section)
	Scope:	All business classified by the company as property business, including commercial property and property sections of multiple-peril policies, and ocean marine including cargo and hull.
	Retention:	First Layer - $3,000,000 Second Layer - $5,000,000 Third Layer - $25,000,000
	Coverage:	First Layer - $2,000,000 ultimate net loss per risk per occurrence in excess of a $3,000,000 retention amount per risk per occurrence. Recovery limited to $9,000,000 per occurrence. Second Layer - $20,000,000 ultimate net loss per risk per occurrence in excess of the second layer retention of $5,000,000. Recovery limited to $60,000,000 per occurrence. Third Layer - $25,000,000 ultimate net loss per risk per occurrence in excess of the third layer retention of $25,000,000. Recovery limited to $75,000,000 per occurrence.
	Premium:	First Layer - Deposit premium of $980,000; actual premium is the greater of 2.298% of subject net earned premium for the period or $784,000. Second Layer - Deposit premium of $3,300,000; actual premium is the greater of 3% of subject net earned premium for the period or $2,640,000. Third Layer - Deposit premium of $1,045,000; actual premium is the greater of 0.95% of subject net earned premium for the period or $836,000.
Commissions:		First Layer - 40% of net profit after deduction of losses and a 22.5% reinsurers' home office expense factor. Computation of adjustments shall continue to be made on an annual basis, with an unlimited carry forward of deficit or credit balances, until all accounts relating to income or outgo for the adjustment period have been closed. Second Layer - 25% of net profit after deduction of losses and a 20% reinsurers' home office expense factor. Computation of adjustments shall continue to be made on an annual basis, with an unlimited carry forward of deficit or credit balances, until all

accounts relating to income or outgo for the adjustment period have been closed.

Third Layer - None

Effective date:	July 1, 1999
Termination:	July 1, 2000. The company may terminate the participation of any reinsurer with 30 days' prior written notice in instances of a reinsurer's financial distress or change in control.
Additional Comments:	Aon Re Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

8. Type: Four-Layer Property Catastrophe Excess of Loss

Reinsurer:	(See Table B at the end of this section)
Scope:	All property business written or assumed, including, but not limited to, commercial property business, property sections of multi-peril policies, automobile physical damage, and ocean marine including cargo and hull
Retention:	First Layer - $6,000,000 Second Layer - $12,000,000 Third Layer - $20,000,000 Fourth Layer - $50,000,000
Coverage:	First Layer - $6,000,000 per risk per occurrence in excess of $6,000,000 retention. The maximum recovery is not to exceed $6,000,000 for any one loss occurrence and $12,000,000 for the entire contract year. Second Layer - $8,000,000 per risk per occurrence in excess of $12,000,000 second-layer retention. The maximum recovery is not to exceed $8,000,000 for any one loss occurrence and $16,000,000 for the entire contract year. Third Layer - $30,000,000 per risk per occurrence in excess of $20,000,000 third-layer retention. The maximum recovery is not to exceed $30,000,000 for any one loss occurrence and $60,000,000 for the entire contract year. Fourth Layer - $50,000,000 per risk per occurrence in excess of $50,000,000 fourth-layer retention. The maximum recovery is not to exceed $50,000,000 for any one loss occurrence and $100,000,000 for the entire contract year.

Premium:	First Layer - Deposit premium of $1,360,000; actual premium is the greater of 1.15% of subject net earned premium for the period or $1,088,000.
	Second Layer - Deposit premium of $1,240,000; actual premium is the greater of 1.05% of subject net earned premium for the period or $992,000.
	Third Layer - Deposit premium of $2,250,000; actual premium is the greater of 1.90% of subject net earned premium for the period or $1,800,000.
	Fourth Layer - Deposit premium of $2,000,000; actual premium is the greater of 1.69% of subject net earned premium for the period or $1,600,000.
Commissions:	None
Effective date:	July 1, 1999
Termination:	July 1, 2000. The company may terminate the participation of any reinsurer with 30 days' prior written notice in instances of a reinsurer's financial distress or change in control.
Additional Comments:	Aon Re Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

9. Type: Highly Protected Risk/Property Special Risk Aggregate Excess of Loss

Reinsurers: As of December 31, 1999, participation on the two layers was as follows:

Participant	1st Layer	2nd Layer
American Re-Insurance Company		25%
Erie Insurance Exchange		20%
First Excess and Reinsurance Corporation		25%
Gerling Global Reinsurance Corporation (U.S. Branch)		5%
Liberty Mutual Insurance Company	5%	
SCOR Reinsurance Company		25%
XL Reinsurance America Inc.	95%	
Total	100%	100%

Scope: Property business, including, but not limited to, commercial property business and property sections of multiple peril policies emanating from the company's Highly Protected Risk/Property Special Risk Division

Retention:	First Layer – Ultimate net losses in an amount equal to 55% of subject net earned premium Second Layer – Ultimate net losses in an amount equal to 75% of subject net earned premium
Coverage:	First Layer – Ultimate net losses in excess of the retention not to exceed an amount equal to 20% of subject net earned premium Second Layer – Ultimate net losses in excess of the retention not to exceed an amount equal to 20% of subject net earned premium
Premium:	First Layer - Deposit premium of $1,800,000 per contract year. At the close of each year, the deposit premium will be adjusted against a rate of 3.53% of subject premium. However, the deposit premium will be adjusted only if the actual subject premium is 10% greater or 10% less than estimated. Second Layer - Deposit premium of $750,000 per contract year. At the close of each year, the deposit premium will be adjusted against a rate of 1.47% of subject premium. However, the deposit premium will be adjusted only if the actual subject premium is 10% greater or 10% less than estimated.
Commissions:	First Layer – 50% of net profit after deduction of losses and a 25% reinsurers' home office expense factor. Computation of adjustments shall continue to be made on an annual basis, with an unlimited carry forward of deficit or credit balances, until all accounts relating to income or outgo for the adjustment period have been closed. Second Layer – 25% of net profit after deduction of losses and a 15% reinsurers' home office expense factor. Computation of adjustments shall continue to be made on an annual basis, with an unlimited carry forward of deficit or credit balances, until all accounts relating to income or outgo for the adjustment period have been closed.
Effective date:	January 1, 1999
Termination:	January 1, 2001. The company may terminate the participation of any reinsurer with 30 days' prior written notice in instances of a reinsurer's financial distress or change in control.
Additional Comments:	Aon Re Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

10. Type: Two-Layer Casualty Buffer

Reinsurer:	First Layer: Zurich Reinsurance (North America), Inc.

	Second Layer: GE Reinsurance Corporation
Scope:	Liability under multi-peril package policies, including: all bodily and personal injury liability including professional liability and automobile no-fault and medical payments. All property damage liability classified as casualty including professional liability; fidelity and burglary; protection and indemnity.
Retention:	First Layer - $500,000 ultimate net loss each and every occurrence. The company retains the first $5,000,000 of losses otherwise recoverable. Second Layer - $1,000,000 ultimate net loss each and every occurrence.
Coverage:	First Layer - Excess of $500,000 ultimate net loss, including loss adjustment expenses, each and every occurrence; which in the aggregate exceed $5,000,000. The reinsurers' maximum liability shall be $25,000,000. Second Layer - Excess of $1,000,000 ultimate net loss, including loss adjustment expenses, each and every occurrence.
Premium:	First Layer - Annual deposit premium of $4,500,000, payable in quarterly installments, subject to an adjustment at the rate of 1.75% to 5.5% of gross net written premium income. Second Layer - Annual deposit premium of $4,500,000, payable in quarterly installments, subject to an adjustment at the rate of 2% of gross net written premium income.
Commissions:	None
Effective date:	July 1, 1999
Termination:	July 1, 2000. The company may terminate the participation of any reinsurer with 30 days' prior written notice in instances of a reinsurer's financial distress or change in control.
Additional Comments:	Guy Carpenter & Company, Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

11.	Type:	Four-Layer Casualty Excess of Loss
	Reinsurer:	(See Table C at the end of this section)
	Scope:	Worker's compensation, employers' liability, bodily and personal injury, property damage, fidelity and burglary, protection and indemnity in respect to the yacht business and accidental death and dismemberment.

Retention:	First Layer - $7,000,000 net loss per risk occurrence Second Layer - $11,000,000 first layer retention net loss per risk occurrence. Third Layer - $20,000,000 second layer retention net loss per risk occurrence. Fourth Layer - $40,000,000 third layer retention per risk occurrence.
Coverage:	First Layer - $4,000,000 ultimate net loss in excess of a retention of $7,000,000 net loss per risk occurrence, with an annual aggregate limit of $12,000,000. Recovery limited to $5,000,000 for any one person. Second Layer - $9,000,000 ultimate net loss in excess of a retention of $11,000,000 net loss per risk occurrence, with an annual aggregate limit of $18,000,000. Recovery limited to $5,000,000 for any one person. Third Layer - $20,000,000 ultimate net loss in excess of a retention of $20,000,000 net loss per risk occurrence, with an annual aggregate limit of $40,000,000. Recovery limited to $5,000,000 for any one person. Fourth Layer - $10,000,000 ultimate net loss in excess of a retention of $40,000,000 per risk occurrence, with an annual aggregate limit of $20,000,000. Recovery limited to $5,000,000 for any one person.
Premium:	First Layer - $850,000 annual deposit premium payable in quarterly installments, and adjustable at 0.11% of subject gross net written premium income. Subject to minimum premium of $680,000. If losses paid by reinsurers exceed $4,000,000, additional premium is calculated by multiplying the fraction that the loss amount bears to $4,000,000 times 100% of adjusted premium. Second Layer - $1,016,000 annual deposit premium payable in quarterly installments, and adjustable at 0.131% of subject gross net written premium income. Subject to minimum premium of $812,000. If losses paid by reinsurers exceed $9,000,000, additional premium is calculated by multiplying the fraction that the loss bears to $9,000,000 and multiplying it by 50% of the adjusted premium. Third Layer - $1,086,000 annual deposit premium payable in quarterly installments, and adjustable at 0.14% of subject gross net written premium income, subject to minimum premium of $869,000. If losses paid by reinsurers exceed $20,000,000, additional premium is calculated by multiplying the fraction that the loss bears to $20,000,000 and multiplying it by 100% of the adjusted premium.

		Fourth Layer - $386,000 annual deposit premium payable in quarterly installments, and adjustable at 0.05% of subject gross net written premium income, subject to minimum premium of $308,000. If losses paid by reinsurers exceed $10,000,000, additional premium is calculated by multiplying the fraction that the loss bears to $10,000,000 and multiplying it by 100% of the adjusted premium.
	Commission:	None
	Effective date:	July 1, 1999
	Termination:	July 1, 2000. The company may terminate the participation of any reinsurer with 30 days' prior written notice in instances of a reinsurer's financial distress or change in control.
	Additional Comments:	Guy Carpenter & Company, Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.
12.	Type:	Workers' Compensation Per Claimant Excess of Loss
	Reinsurers:	American Accident Reinsurance Group (40%) Pinehurst Accident Reinsurance Group (40%) Reliastar Life Insurance Company (20%)
	Scope:	New and renewal worker's compensation and voluntary compensation policies which are the result of accidental death, dismemberment, disability, and medical expense benefits including exposure and disappearance.
	Retention:	$5,000,000 per claimant
	Coverage:	$5,000,000 excess of $5,000,000 per claimant, with an annual aggregate limit of $25,000,000
	Premium:	Annual minimum and deposit premium of $378,000, payable in quarterly installments, subject to adjustment at the rate of 0.087% of subject gross net written premium income
	Commissions:	None
	Effective date:	July 1, 1999
	Termination:	July 1, 2000
	Additional Comments:	Guy Carpenter & Company, Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute

payment to the company only to the extent that such payments are actually received by the company.

13. Type: Three-Layer Workers' Compensation Excess of Loss

Reinsurers: As of December 31, 1999, participation on the three layers was as follows:

Participant	1st Layer	2nd Layer	Third Layer
American Accident Reinsurance Group	60%	80%	40%
Pinehurst Accident Reinsurance Group		20%	30%
Reliastar Life Insurance Company	40%		30%
Total	100%	100%	100%

Scope: New and renewal worker's compensation and voluntary compensation policies which are the result of accidental death, dismemberment, disability, and medical expense benefits, including exposure and disappearance.

Retention: First Layer - $10,000,000

Second Layer - $20,000,000

Third Layer - $70,000,000

Coverage: First Layer - $10,000,000 ultimate net loss in excess of $10,000,000, per occurrence, with one full reinstatement available during the contract term. Recovery is limited to $5,000,000 for any one person.

Second Layer - $50,000,000 ultimate net loss in excess of $20,000,000 first layer retention, per occurrence, with one full reinstatement available during the contract term. Recovery is limited to $5,000,000 for any one person.

Third Layer - $50,000,000 ultimate net loss in excess of $70,000,000 second layer retention, per occurrence, with one full reinstatement available during the contract term. Recovery is limited to $5,000,000 for any one person.

Premium: First Layer - Annual minimum and deposit premium of $200,000, payable in quarterly installments, adjustable based on a rate of 0.046% of subject gross net written premium income. Reinstatement is available with additional premium calculated 100% as to time and pro rata as to the amount of paid losses.

Second Layer - Annual minimum and deposit premium of $422,000, payable in quarterly installments, adjustable based on a rate of 0.097% of subject gross net written premium income. Reinstatement is available with additional premium calculated 100% as to time and pro rata as to the amount of paid losses.

Third Layer - Annual minimum and deposit premium of $156,000, payable in quarterly installments, adjustable based on a rate of

0.036% of subject gross net written premium income. Reinstatement is available with additional premium calculated 100% as to time and pro rata as to the amount of paid losses.

Commissions:	None
Effective date:	July 1, 1999
Termination:	July 1, 2000
Additional Comments:	Guy Carpenter & Company, Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

14. Type: Employment Related Practices Liability Quota Share

Reinsurers: As of December 31, 1999, participation on this contract is as follows:

GE Reinsurance Corporation	22.5%
Hartford Fire Insurance Company	22.5%
Odyssey Reinsurance Corporation	22.5%
Trenwick America Reinsurance Corporation	22.5%
Total	90.0%

Scope:	Employment related practices liability, including, but not limited to, wrongful termination, discrimination, and sexual harrassment, written by the company's Custom Accounts and Commercial Accounts Divisions
Retention:	10% quota share
Coverage:	90% quota share, with the cession on each risk not to exceed $900,000
Premium:	90% of gross original premium
Commissions:	25% of subject gross original premium
Effective date:	April 1, 1999
Termination:	April 1, 2000. The company may terminate the participation of any reinsurer with 30 days' prior written notice in instances of a reinsurer's financial distress or change in control.
Additional Comments:	Guy Carpenter & Company, Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute

payment to the company only to the extent that such payments are actually received by the company.

15.	Type:	Commercial Umbrella Liability First Excess of Loss
	Reinsurer:	American Re-Insurance Company
	Scope:	Commercial umbrella liability
	Retention:	$5,000,000
	Coverage:	$5,000,000 ultimate net loss per occurrence in excess of a retention of $5,000,000
	Premium:	100% of premiums applicable to limits between $5,000,000 and $10,000,000
	Commission:	27.5% of subject net premiums written
	Contingent Commission:	30% of net profit after deduction of losses, an allowance for incurred but unreported losses, commission allowances, and a 20% reinsurers' home office expense factor
	Effective date:	January 1, 1985, as amended
	Termination:	By any party with 90 days' advance written notice by registered mail
16.	Type:	Commercial Umbrella Liability Second Excess of Loss
	Reinsurer:	Employers Reinsurance Corporation
	Scope:	Commercial umbrella liability
	Retention:	$10,000,000
	Coverage:	$10,000,000 ultimate net loss per occurrence in excess of a retention of $10,000,000
	Premium:	100% of premiums applicable to limits between $10,000,000 and $20,000,000
	Commission:	27.5% of subject net premiums written
	Effective date:	August 15, 1990
	Termination:	By any party with 90 days' advance written notice by registered mail

Liberty Mutual Pool Reinsurance Program

17.	Type:	Property Catastrophe Excess of Loss
	Reinsurer:	(See Table D at the end of this section)

Scope:	Property losses occasioned by disaster related to coverages of fire and allied lines, inland marine, and personal and commercial multiple peril policies, with certain named exclusions.
Commission:	None
Effective date:	January 1, 1999
Termination:	January 1, 2000. The company may terminate the participation of any reinsurer with 30 days' prior written notice in instances of a reinsurer's financial distress or change in control.
Additional Comments:	E. W. Blanche Company, Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.
a. First Layer Retention:	The first $250,000,000 of losses and loss adjustment expenses per occurrence and not less than 5% of ultimate net losses and loss adjustment expenses in excess of $250,000,000
Coverage:	Up to 95% of the excess of the company's retention, up to a limit of $100,000,000 per loss occurrence, and $200,000,000 in aggregate for the contract year with maximum reinstatement
Premium:	Minimum and deposit premium of $8,200,000; actual premium is the greater of $8,200,000 or 1.214% of subject gross earned premium
b. Second Layer Retention:	The first $350,000,000 of losses and loss adjustment expenses per occurrence and not less than 10% of ultimate net losses and loss adjustment expenses in excess of $350,000,000
Coverage:	Up to 95% of the excess of the company's retention, up to a limit of $150,000,000 per loss occurrence, and $300,000,000 in aggregate for the contract year with maximum reinstatement
Premium:	Minimum and deposit premium of $9,225,000; actual premium is the greater of $9,225,000 or 1.366% of subject gross earned premium
c. Third Layer Retention:	The first $500,000,000 of losses and loss adjustment expenses per occurrence and not less than 5% ultimate net losses and loss adjustment expenses in excess of $500,000,000
Coverage:	Up to 95% of the excess of the company's retention, up to a limit of $150,000,000 per occurrence, and $300,000,000 in aggregate for the contract year with maximum reinstatement

Premium:	Minimum and deposit premium of $5,250,000; actual premium is the greater of $5,250,000 or 2.119% of subject direct earned premium
Other Provision:	Coverage is limited to losses occurring in Connecticut, Delaware, the District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, and Rhode Island

18. Type: Underlying Property Per Risk Excess of Loss

Reinsurers:	(See Table E at the end of this section)
Scope:	Property losses related to coverages of fire and allied lines, inland marine, and personal and commercial multiple peril policies, with certain named exclusions.
Retention:	$10,000,000
Coverage:	$10,000,000 ultimate net loss per risk per occurrence in excess of $10,000,000 per risk per occurrence. Recovery is limited to $20,000,000 per loss occurrence, and $30,000,000 in aggregate for the contract year with maximum reinstatement
Premium:	Deposit premium of $2,700,000; actual premium is the greater of $2,160,000 or 5.745% of subject earned premium
Commissions:	None
Effective date:	January 1, 1999
Termination:	January 1, 2000
Additional Comments:	E. W. Blanche Company, Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

19. Type: Property Per Risk Excess of Loss

Reinsurer:	(See Table F at the end of this section)
Scope:	Property losses related to coverages of fire and allied lines, inland marine, and personal and commercial multiple peril policies, with certain named exclusions.
Commissions:	None
Effective date:	January 1, 1999
Termination:	January 1, 2000. The company may terminate the participation of any reinsurer with prior written notice in instances of a reinsurer's financial distress or change in control.

Additional Comments:	E. W. Blanch Company, Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.
a. First Layer Retention:	$20,000,000
Coverage:	$20,000,000 ultimate net loss per risk per occurrence in excess of $20,000,000 per risk per occurrence. Recovery is limited to $40,000,000 per loss occurrence, and $60,000,000 in aggregate for the contract year with maximum reinstatement
Premium:	Deposit premium of $1,750,000; actual premium is the greater of $1,400,000 or 3.723% of subject earned premium
b. Second Layer Retention:	$40,000,000
Coverage:	$35,000,000 ultimate net loss per risk per occurrence in excess of $40,000,000 per risk per occurrence. Recovery is limited to $70,000,000 per loss occurrence, and $105,000,000 in aggregate for the contract year with maximum reinstatement
Premium:	Deposit premium of $800,000; actual premium is the greater of $640,000 or 1.70% of subject earned premium
c. Third Layer Retention:	$75,000,000
Coverage:	$35,000,000 ultimate net loss per risk per occurrence in excess of $75,000,000 per risk per occurrence. Recovery is limited to $70,000,000 per loss occurrence, and $105,000,000 in aggregate for the contract year with maximum reinstatement
Premium:	Deposit premium of $375,000; actual premium is the greater of $300,000 or 0.798% of subject direct earned premium
20. Type:	Four-Layer Casualty Excess of Loss
Reinsurer:	(See Table G at the end of this section)
Scope:	Casualty losses related to coverages of general liability, automobile liability, employers' liability, and other lines of business, with certain named exclusions.
Commission:	None
Additional Comments:	Holborn Corporation is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall

	be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.
	The contract only applies to losses during the effective period that are reported to the reinsurers within 90 days after seven years following the end of the contract year
Effective date:	January 1, 1999
Termination:	January 1, 2000
a. First Layer	
Retention:	The first $50,000,000 of losses and loss adjustment expenses per loss
Coverage:	$25,000,000 per loss, and $50,000,000 in aggregate for any one contract year with reinstatement
Premium:	Annual deposit premium of $1,950,000; actual premium is 0.06414% of subject gross net written premium, subject to a two-year minimum premium of $3,900,000
b. Second Layer	
Retention:	The first $75,000,000 of losses and loss adjustment expenses per loss
Coverage:	$25,000,000 per loss, and $50,000,000 in aggregate for any one contract year with reinstatement
Premium:	Annual deposit premium of $2,000,000; actual premium is 0.06578% of subject gross net written premium, subject to a two-year minimum premium of $4,000,000
c. Third Layer	
Retention:	The first $100,000,000 of losses and loss adjustment expenses per loss
Coverage:	$50,000,000 per loss, and $100,000,000 in aggregate for any one contract year with reinstatement
Premium:	Annual deposit premium of $2,100,000; actual premium is 0.06711% of subject gross net written premium, subject to a two-year minimum premium of $4,200,000
c. Fourth Layer	
Retention:	The first $150,000,000 of losses and loss adjustment expenses per loss
Coverage:	$50,000,000 per loss, and $100,000,000 in aggregate for any one contract year with reinstatement
Premium:	Annual deposit premium of $1,750,000; actual premium is 0.05592% of subject gross net written premium, subject to a two-year minimum premium of $3,500,000

21. Type: Workers' Compensation Excess of Loss

Reinsurer: American Re-Insurance Company

Scope: Workers' Compensation under the control of the Business Markets Unit

Retention: $250,000

Coverage: $750,000 ultimate net loss in excess of $250,000, each occurrence, each employee

Premium: Deposit premium of $47,550,000; actual premium is 6.65% of subject earned premium

Commissions: None

Effective date: January 1, 1999

Termination: January 1, 2000

Additional Comments: E. W. Blanch Company, Inc. is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

22. Type: Two-Layer Workers' Compensation Catastrophe Excess of Loss

Reinsurers: (See Table H at the end of this section)

Scope: Workers' Compensation

Commissions: None

Effective date: January 1, 1999

Termination: January 1, 2001

Additional Comments: Holborn Corporation is recognized as intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

a. First Layer Retention: The first $100,000,000 of losses and loss adjustment expenses per loss occurrence

Coverage: $400,000,000 per loss occurrence, and $1,200,000,000 in aggregate for any one contract year

Premium: Annual deposit premium of $1,309,000; actual premium is 0.04197% of subject gross net written premium, subject to a two-year minimum premium of $2,618,600. The first reinstatement is calculated at pro rata of the annual premium, while the second reinstatement is calculated at pro rata of 50% of the annual premium.

b. Second Layer

Retention: The first $500,000,000 of losses and loss adjustment expenses per loss occurrence

Coverage: $200,000,000 per loss occurrence, and $600,000,000 in aggregate for any one contract year

Premium: Annual deposit premium of $356,000; actual premium is 0.01141% of subject gross net written premium, subject to a two-year minimum premium of $712,000. The first reinstatement is calculated at pro rata of the annual premium, while the second reinstatement is calculated at pro rata of 50% of the annual premium.

23. Type: Truck Casualty Automatic Excess of Loss

Reinsurers: Motors Insurance Corporation (50%)
Partner Reinsurance Company of the U.S. (50%)

Scope: In force, new, and renewal Business Markets trucking automobile liability business, excluding assumption reinsurance from nonaffiliates

Retention: $500,000 losses and loss adjustment expenses per loss occurrence, irrespective of the number and kinds of policies involved

Coverage: $500,000 of the ultimate net loss in excess of $500,000 per loss occurrence, irrespective of the number and kinds of policies involved

Premium: 18.5% of gross net written premium income

Commissions: 22.5% gross net written premium income

Effective date: July 1, 1999

Termination: July 1, 2000

Table A
Third-Layer Property Per Risk Excess of Loss
Participation Schedule

Reinsurer	Participation 1st Layer	2nd Layer	3rd Layer
AXA Reinsurance Company	5.500%	4.500%	3.000%
American Agricultural Insurance Company	2.000	2.000	1.000
American Re-Insurance Company	4.000	5.000	7.920
Continental Casualty Company		4.000	4.000
CNA Reinsurance Company, Ltd.	3.000	3.000	2.304
Eagle Star Reinsurance Company Ltd.			0.768
Employers Mutual Casualty Company	0.750	0.500	0.750
Erie Insurance Exchange	3.500	3.500	3.500
Everest Reinsurance Company		2.500	
Farmers Mutual Hail Insurance Company of Iowa		1.000	
GE Reinsurance Corporation	12.000	12.000	
Gerling Global Reins. Corp. of America	9.000	4.000	
Hannover Ruckversicherungs AG		2.250	7.000
Liberty Mutual Insurance Company	6.000	3.000	2.000
Mapfre Re Compania de Reaseguros SA			1.000
New Jersey Re-Insurance Company	0.750	0.750	1.500
Odyssey America Reinsurance Corporation	12.500	2.250	1.728
Partner Reinsurance Company of the U.S.	7.000	6.000	4.000
PMA Capital Insurance Company			2.000
QBE Reinsurance Corporation		1.000	1.000
St. Paul Fire & Marine Insurance Company		6.000	3.350
St. Paul Reinsurance Company Ltd.			2.304
SCOR Reinsurance Company	2.500		
Shelter Reinsurance Company		0.100	0.100
Swiss Reinsurance America Corporation	4.750		
Terra Nova Insurance Company, Ltd.		2.500	3.072
Trenwick America Reinsurance Corporation		3.500	
Underwriters at Lloyd's of London	21.500	22.050	42.001
Underwriters Re Bermuda	2.750	2.000	4.000
Unionamerica Insurance Company, Ltd.		1.500	
XL Re Ltd.		1.250	
XL Reinsurance America, Inc.	2.500	1.350	0.550
Zurich Insurance Company (Switzerland)		2.500	1.152
TOTAL	100.000% of 100%	100.000% of 100%	99.999% of 100 %

Table B
Four-Layer Property Catastrophe Excess of Loss
Participation Schedule

Reinsurer	Participation 1st Layer	2nd Layer	3rd Layer	4th Layer
American Agricultural Insurance Company		1.50%	1.00%	1.50%
American Re-Insurance Company	1.00%	1.00	3.50	3.50
AXA Reassurance S.A.	7.00	7.00		
AXA Reinsurance Company	2.00	1.00	4.00	2.00
CNA Reinsurance Company, Ltd.		2.39	2.14	1.68
Continental Casualty Company		2.00	2.50	1.50
The Copenhagen Reinsurance Company (U.K.) Ltd.				1.12
Country Mutual Insurance Company	3.50	3.00		
Eagle Star Reinsurance Company Ltd.		1.79		0.34
Employers Mutual Casualty Company		1.00	1.00	1.00
Erie Insurance Exchange	2.00	3.50	3.50	3.00
Everest Reinsurance Company			6.00	
Farmers Mutual Hail Insurance Company of Iowa			0.50	0.60
Folksam International Insurance Company Ltd.		2.00		0.50
GE Reinsurance Corporation	12.50		8.00	
General Reinsurance Corporation			6.25	6.25
Gerling Global Reinsurance Company of America				2.00
Hannover Ruckversicherungs AG				2.00
Lasalle Re Ltd.		2.00	2.50	3.50
Liberty Mutual Insurance Company	2.00	2.00	1.75	1.75
Mapfre Re Compania de Reaseguros SA	1.00	1.50	2.00	2.00
New Jersey Re-Insurance Company			1.00	1.00
Odyssey America Reinsurance Corporation			2.14	1.68
Odyssey Reinsurance Corporation	1.50	2.50	1.50	2.00
Partner Reinsurance Company of the U.S.				2.00
PMA Capital Insurance Company	1.55		0.95	0.30
QBE Reinsurance Corporation			0.75	0.50
Republic Western Insurance Company				0.30
St. Paul Fire & Marine Insurance Company			1.50	3.00
St. Paul Reinsurance Company Ltd.			1.78	
SCOR Reinsurance Company	9.60			5.00
Shelter Reinsurance Company	1.00	1.50		
Sirius International Insurance Company		1.00	0.75	0.75
S.P.S. Reassurance S.A.	1.10	1.10	1.50	1.50
Swiss Reinsurance America Corporation				4.00
Terra Nova Insurance Company Ltd.		0.60	0.53	0.42
Trenwick America Reinsurance Corporation				1.50
Underwriters at Lloyd's of London	19.64	28.89	29.86	28.61
Underwriters Re Bermuda		1.75	2.00	3.50
Unionamerica Insurance Co. Ltd.		1.19	0.89	0.14
United Fire & Casualty Company	1.00	1.00	1.00	1.00
XL Re Ltd.	3.00	2.00	2.00	3.00
XL Reinsurance America Inc.	3.00		1.50	
Zurich Insurance Company	2.61	1.79	0.71	0.56
TOTAL	75.00% of 100.00%	75.00% of 100.00%	95.00% of 100.00%	95.00% of 100.00%

Table C
Four-Layer Casualty Excess of Loss
Participation Schedule

Reinsurer	Participation 1st Layer	2nd Layer	3rd Layer	4th Layer
Berkley Insurance Company	10.00%	2.00%		
Continental Casualty Company		2.00	9.00%	9.00%
Dorinco Reinsurance Company		1.50		2.00
Folksamerica Reinsurance Company		2.00	2.50	
GE Reinsurance Corporation	25.00	10.00		
Gerling Global Reinsurance Company of America		3.00	9.00	2.50
Hannover Ruckversicherungs AG			2.00	5.00
Hartford Fire Insurance Company	1.00	5.00	5.00	2.00
HIH Casualty and General Insurance Ltd.			2.36	2.50
Liberty Mutual Insurance Company	25.00	25.00	2.50	2.00
New Jersey Re-Insurance Company			1.50	3.00
Odyssey Reinsurance Corporation			2.50	3.00
Partner Reinsurance Company of the U.S.			5.00	
PMA Capital Insurance Company	12.00			3.00
QBE International Insurance Ltd.		8.50	2.36	4.58
QBE Reinsurance Corporation				3.00
St. Paul Fire & Marine Insurance Company	14.75	10.00	10.00	13.00
St. Paul Reinsurance Company Ltd.			5.90	
Terra Nova Insurance Company Ltd.			1.97	1.25
Toa Re Insurance Company of America		2.00	3.15	3.00
Underwriters at Lloyd's of London		5.23	8.07	17.50
Underwriters Reinsurance Company			1.25	2.50
XL Reinsurance America Inc.		12.00	18.00	9.00
Zurich Reinsurance Company of New York	12.25	8.50	4.00	8.00
Zurich Reinsurance Company, Ltd.		3.27	3.94	4.17
TOTAL	100.00%	100.00%	100.00%	100.00%

Table D
Property Catastrophe Excess of Loss
Participation Schedule

Reinsurer	Participation 1st Layer	2nd Layer	3rd Layer
Albingia Versicherungs AG			0.300%
Assitalia, Le Assicurazioni d'Italia	0.300%	0.300%	0.300
AXA Reassurance S.A.	3.500	3.500	
AXA Reinsurance Company	0.850	1.000	1.000
Bayerische Ruckversicherungs, AG	1.000	1.750	0.600
Berkley Insurance Company		0.330	
China Reinsurance Company (HK) Ltd.	0.350	0.400	
CNA International Reinsurance Co. Ltd.	0.600	0.411	
Continental Casualty Company		1.500	0.500
The Copenhagen Reinsurance Co. (Denmark) Ltd.	1.000	1.000	1.000
The Copenhagen Reinsurance Co. (UK) Ltd.	3.000	2.092	0.475
CORIFRANCE, Compagnie de Reassurance d'Ile de France	0.250		
Dorinco Reinsurance Company	0.500	0.500	
Eagle Star Reinsurance Company Ltd.	0.250	0.250	0.237
Employers Mutual Casualty Company	0.250	0.100	
Erie Insurance Exchange	0.500	0.500	0.350
Europa Ruckversicherungs AG	0.200	0.300	
Everest Reinsurance Company		2.000	2.000
Farm Bureau Mutual Insurance Company	0.150		
Farm Bureau Mutual Insurance Company of Michigan		0.083	0.067
Farmers Mutual Hail Insurance Company of Iowa		0.100	0.100
First Excess and Reinsurance Corporation	1.250	1.470	0.670
Folksamerica Reinsurance Company	0.600	0.466	0.600
GAN Insurance Co. Ltd. (Non-proportional Acct.)	0.243	0.144	0.190
General Insurance Corporation of India	0.250	0.250	
Generali Holdings Vienna AG			0.100
Gerling Global Reinsurance Corporation of America	1.000		3.667
Hannover Ruckversicherungs AG	2.500	2.250	2.600
Hartford Fire Insurance Company	0.750	0.330	
Helvetia Swiss Insurance Company Ltd.	0.250		
HIH Casualty and General Insurance Ltd.	2.000	0.617	0.712
International Property Catastrophe Reinsurance Company	1.500	1.500	1.000
Kemper Reinsurance London Limited	0.250	0.500	0.166
La Generale de Berne Compagnie d'Assurances		0.200	0.200
La Mutuelle du Mans Assurances I.A.R.D.	1.500	1.250	1.138
LaSalle Re Ltd.	6.375	4.333	3.333
Mapfre Re Compania de Reaseguros SA	0.750	1.000	1.250
Monegasque de Reassurances s.a.m.	2.500	1.000	0.920
Munchener Ruckversicherungs, AG		5.000	2.410
Nationwide Mutual Insurance Company	1.250	1.000	1.000
New Jersey Re-Insurance Company	0.250	0.350	0.300
Nissan Fire & Marine Insurance Company Ltd.		0.350	
Odyssey America Reinsurance Corporation		0.500	0.237
Odyssey Reinsurance Corporation	0.300	0.300	1.000
Odyssey Re (Bermuda) Ltd.		0.500	2.000
Overseas Partners U.S. Reinsurance Company		0.136	
Partner Reinsurance Company of the U.S.	9.300	9.200	7.330
PMA Capital Insurance Company	0.250	0.167	
QBE International Insurance Ltd.		0.206	0.948

Table D
Property Catastrophe Excess of Loss
Participation Schedule
(continued)

QBE Reinsurance Corporation	0.250		1.250
R & V Versicherungs AG			0.427
Reinsurance Australia Corporation Limited	2.500	2.130	1.498
Renaissance Reinsurance, Ltd.			7.253
Republic Western Insurance Company		0.133	0.100
St. Paul Fire & Marine Insurance Company	3.000	2.000	3.663
St. Paul Reinsurance Company Ltd.	1.500	1.500	0.712
Sirius International Insurance Corp.	0.500		0.350
S.P.S. Reassurance, S.A.	1.500	1.250	1.100
Tempest Reinsurance Company, Ltd.	1.500	1.500	11.250
Terra Nova Insurance Company (Bermuda) Ltd.	1.000	1.000	2.000
Terra Nova Insurance Company Ltd.		0.500	0.356
Underwriters at Lloyd's of London	13.282	11.599	17.804
Unionamerica Insurance Company Ltd.	0.200		
Vesta Fire Insurance Corporation			2.500
Wurttembergische Vericherung AG		0.250	
XL Re Ltd.	3.000	3.000	2.500
XL Reinsurance America Inc.		0.920	
Zurich Reinsurance (North America), Inc.			1.600
Zurich Versicherung	1.000	0.750	1.270
TOTAL	75.000% of 100%	75.667% of 100%	94.333% of 100%

Table E
Underlying Property Per Risk Excess of Loss
Participation Schedule

Reinsurer	Participation
Assitalia, Le Assicurazioni d'Italia	0.500%
Berkley Insurance Company	0.750
Continental Casualty Company	1.875
Erie Insurance Exchange	0.375
Folksamerica Reinsurance Company	2.250
General Reinsurance Company	12.500
Generale de Berne Compagnie d'Assurances	1.000
Hannover Ruckversicherungs AG	4.000
Nationwide Mutual Insurance Company	3.750
Odyssey America Reinsurance Corporation	2.000
Partner Reinsurance Company of the U.S.	2.625
QBE International Insurance Ltd.	1.000
Republic Western Insurance Company	0.750
St. Paul Fire & Marine Insurance Company	6.375
Underwriters at Lloyd's of London	10.250
TOTAL	50.00% of 100%

Table F
Property Per Risk Excess of Loss
Participation Schedule

Reinsurer	Participation 1st Layer	2nd Layer	3rd Layer
American Re-Insurance Corporation	2.50%		
Assitalia, Le Assicurazioni d'Italia		0.50%	
Berkley Insurance Company	0.50		
Continental Casualty Company	2.00	0.75	1.50%
Employers Reinsurance Corporation	3.50		
Erie Insurance Exchange	0.31	0.22	0.50
Europa Ruckversicherungs AG	0.70	1.00	
Folksamerica Reinsurance Company	1.17	0.50	
GAN Insurance Co. Ltd. (Non-proportional Acct.)	0.91		
Generale de Berne Compagnie d'Assurances		1.00	
General Reinsurance Corporation	13.00	5.00	
Hannover Ruckversicherungs AG	1.40	7.50	7.90
Hartford Fire Insurance Company		1.08	
Kemper Reinsurance London Limited	0.90	0.50	
Mid Ocean Reinsurance Company (Bermuda) Limited	5.00	1.50	1.50
Nationwide Mutual Insurance Company	0.90	0.75	1.50
New Jersey Re-Insurance Company	1.00	1.50	
Partner Reinsurance Company of the U.S.	6.00	4.35	4.50
QBE International Insurance Ltd.	1.81	2.00	
Reinsurance Australia Corporation Limited	3.02		
Republic Western Insurance Company	0.12	0.10	0.20
St. Paul Fire & Marine Insurance Company	7.50	3.25	3.00
St. Paul Reinsurance Company Ltd.		4.00	
Sirius International Insurance Corporation	1.00		
S.P.S. Reassurance, S.A.	1.55	2.00	
Swiss Reinsurance Corporation	2.00	2.00	5.00
Terra Nova Insurance Company Ltd.	3.33	4.39	2.88
TIG Reinsurance Company	1.81	2.70	
Underwriters at Lloyds of London	36.57	49.86	71.52
Unionamerica Insurance Company Ltd.	1.50		
Wurttembergische Vericherung AG		0.30	
XL Reinsurance America Inc.		3.25	
TOTAL	100.00%	100.00%	100.00%

Table G
Four-Layer Casualty Excess of Loss
Participation Schedule

Reinsurer	Participation 1st Layer	2nd Layer	3rd Layer	4th Layer
Berkley Insurance Company	2.000%	2.000%	1.500%	
Chartwell Reinsurance Company	0.750	0.750	0.250	0.250%
CNA Reinsurance Company Ltd.	2.707		2.279	2.372
Continental Casualty Company	2.500		0.500	
Dorinco Reinsurance Company	1.750	3.000		
Employers Mutual Casualty Company	1.000	1.000	0.500	1.000
Everest Reinsurance Company			3.250	5.000
Folksamerica Reinsurance Company	1.000		1.000	2.000
GE Reinsurance Corporation	10.000			
General Reinsurance Corporation	3.750	3.500	1.800	8.000
Hannover Ruckversicherungs AG	4.000	5.000	6.000	6.250
Hartford Fire Insurance Company	5.000	6.000	1.000	2.000
Kemper Reinsurance London Limited		0.939	0.760	0.791
Lasalle Re Ltd.			1.500	
New Jersey Re-Insurance Company	1.000	1.000	1.000	1.000
Odyssey Reinsurance Corporation	2.000	2.500		1.000
Odyssey Reinsurance London, Inc.	1.507		0.759	0.791
Partner Reinsurance Company Ltd.		1.500		
PMA Capital Insurance Company	5.000		2.000	
QBE Reinsurance Corporation			1.000	1.000
Reinsurance Australia Corporation Limited	3.750	3.750		
St. Paul Fire & Marine Insurance Company	4.000	12.000	6.000	4.000
St. Paul Reinsurance Company Ltd.	3.611	3.758		
SCOR Reinsurance Company		2.000	2.500	
Sorema North America Reinsurance Company	1.000	2.000	1.000	1.000
Terra Nova Insurance Company (Bermuda) Ltd.			2.000	
Terra Nova Insurance Company Ltd.	0.902	0.939	5.696	
Toa-Re Insurance Company of America	1.750	1.000	4.000	
Transatlantic Reinsurance Company	5.000	9.000	4.000	5.000
Underwriters at Lloyd's of London	9.023	12.864	33.447	43.046
Underwriters Reinsurance Company			4.000	4.000
Unionamerica Insurance Co. Ltd.			0.759	
XL Reinsurance America Inc.	10.000	14.000	3.500	3.500
Zurich Reinsurance (North America) Inc.	12.000	6.500	3.000	4.000
Zurich Versicherungs AG	5.000	5.000	3.000	3.000
TOTAL	100.000%	100.000%	98.000%	99.000%

Table H
Two-Layer Workers' Compensation Catastrophe Excess of Loss
Participation Schedule

Reinsurer	Participation 1st Layer	2nd Layer
American Accident Reinsurance Group	16.50%	7.500%
American United Life Insurance Company	5.00	6.000
CNA Reinsurance Company		0.891
Cologne Life Reinsurance Company		8.908
Connecticut General Life Insurance Company	11.50	
Continental Assurance Company	5.00	3.000
Continental Casualty Company	10.00	
First Allamerica Financial Life Insurance Company	14.50	8.000
GAN Insurance Co. Ltd.		3.118
London Life Reinsurance Company		5.000
Manulife Reinsurance Corporation		15.000
New Hampshire Insurance Company		6.681
Phoenix Home Life Mutual Insurance Company	5.00	3.000
Pinehurst Accident Reinsurance Group	11.50	
Reliastar Life Insurance Company	16.00	6.350
Security Life of Denver Insurance Company	5.00	2.500
Underwriters at Lloyd's of London		17.371
UNUM Life Insurance Company		6.681
TOTAL	100.00%	100.000%

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 1999, annual statement to the Commissioner of Insurance. Numerical information is presented in this section as it appears in the 1999 annual statement. Failure of certain entries to total or agree precisely is due to immaterial rounding errors, except where otherwise noted. Adjustments made as a result of the examination are noted in the section of this report captioned "Reconciliation of Policyholders' Surplus." Also included in this section are schedules which reflect the financial experience of the company, the compulsory and security surplus calculation, and NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination.

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company
Assets
As of December 31, 1999

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	$2,376,268,678		$4,095,181	$2,372,173,497
Stocks:				
Preferred stocks	40,313		3,997	36,316
Common stocks	1,718,357	(120)		1,718,237
Mortgage loans on real estate:				
First liens	104,922			104,992
Real estate:				
Occupied by the company	46,301,315			46,301,315
Cash	(42,420,073)			(42,420,073)
Short-term investments	60,790,433			60,790,433
Other invested assets	1,901,652	(1,901,652)		
Write-ins for invested assets:				
1994 private passenger auto escrow accounts	555,223			555,223
December 1996 private passenger auto filing escrow accounts	114,932			114,932
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	92,416,670		12,322,600	80,094,070
Premiums, agents' balances, and installments booked but deferred and not yet due	128,439,421		1,007,500	127,431,921
Accrued retrospective premiums		79,479,548	8,047,706	71,431,842
Funds held by or deposited with reinsured companies	181,539,510			181,539,510
Bills receivable, taken for premiums	12,355		12,355	
Reinsurance recoverables on loss and adjustment payments	40,045,911			40,045,911
Federal income tax recoverable		3,958,902		3,958,902
Guaranty funds receivable or on deposit	362,736			362,736
Electronic data processing equipment	29,230,950		16,132,297	13,098,653
Interest, dividends, and real estate income due and accrued		29,968,279		29,968,279
Receivable from parent, subsidiaries, and affiliates	34,329,107			34,329,107

Equities and deposits in pools and associations	12,032,479		383,798	11,648,681
Amounts receivable relating to uninsured accident and health plans	1,437,732	9,382	52,418	1,394,696
Other assets:				
Miscellaneous assets	72,747,439		11,008,900	61,738,539
Amounts receivable under uninsured plans	29,243,009		1,287,976	27,955,033
Promissory note - affiliate	83,000,000			83,000,000
Furniture and equipment	3,807,625		3,807,625	
Total Assets	$3,154,020,696	$111,514,339	$58,162,353	$3,207,372,682

Liabilities, Surplus, and Other Funds
As of December 31, 1999

Losses	$1,661,807,012
Reinsurance payable on paid loss and loss adjustment expenses	28,672,856
Loss adjustment expenses	339,739,156
Contingent commissions and other similar charges	809,393
Other expenses (excluding taxes, licenses, and fees)	30,589,386
Taxes, licenses, and fees (excluding federal and foreign income taxes)	7,457,607
Unearned premiums	295,135,786
Dividends declared and unpaid:	
Policyholders	4,909,806
Funds held by company under reinsurance treaties	27,594,881
Amounts withheld or retained by company for the account of others	17,666,634
Provision for reinsurance	11,501,053
Drafts outstanding	37,696,412
Payable for securities	2,207,599
Write-ins for liabilities:	
Amounts held under uninsured plans	34,406,393
Other liabilities	37,704,193
1994 private passenger auto escrow accounts	555,223
December 1996 private passenger auto filing escrow accounts	114,932
Total Liabilities	2,538,568,322
Surplus notes	220,000,000
Unassigned funds (surplus)	448,804,360
Surplus as Regards Policyholders	668,804,360
Total Liabilities, Surplus, and Other Funds	$3,207,372,682

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company
Summary of Operations
For the Year 1999

Underwriting Income	
Premiums earned	$ 897,572,301
Deductions	
Losses incurred	671,420,251
Loss expenses incurred	152,648,957
Other underwriting expenses incurred	220,170,925
Write-ins for underwriting deductions:	
Other underwriting deductions	(4,094,043)
Total underwriting deductions	1,040,146,090
Net underwriting gain or loss	(142,573,789)
Investment Income	
Net investment income earned	145,295,676
Net realized capital gains or (losses)	89,449,515
Net investment gain or loss	234,745,191
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(4,811,229)
Finance and service charges not included in premiums	5,185,148
Write-ins for miscellaneous income:	
Miscellaneous income/expense	(9,349,096)
Total other income	(8,975,177)
Net income before dividends to policyholders and before federal and foreign income taxes	83,196,225
Dividends to policyholders	15,071,988
Net Income	$ 68,124,237

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company
Cash Flow
For the Year 1999

Premiums collected net of reinsurance	$1,019,416,457	
Loss and loss adjustment expenses paid (net of salvage or subrogation)	247,085,701	
Underwriting expenses paid	240,399,251	
Other underwriting income (expenses)	6,028,584	
Cash from underwriting		$537,960,089
Net investment income		163,912,612
Other income (expenses):		
Agents' balances charged off	(4,811,229)	
Net funds held under reinsurance treaties	(160,078,159)	
Net amount withheld or retained for account of others	(88,155,289)	
Write-ins for miscellaneous items:		
Other income/expense	1,631,430	
Total other income		(251,413,247)
Deduct:		
Dividends to policyholders paid	14,836,006	
Federal and foreign income taxes (paid) recovered	25,277,076	
Net cash from operations		460,900,524
Proceeds from investments sold, matured, or repaid:		
Bonds	592,444,801	
Mortgage loans	107,266	
Miscellaneous proceeds	77,661,833	
Total investment proceeds		670,213,900
Cost of investments acquired (long-term only):		
Bonds	1,171,926,659	
Stocks	235,633	
Other invested assets	42,136	
Total investments acquired		1,172,204,428
Net cash from investments		(501,990,528)
Cash provided from financing and miscellaneous sources:		
Other cash provided	93,326,389	
Total		93,326,389
Cash applied for financing and miscellaneous uses:		
Net transfers to affiliates	367,037,633	
Total		367,037,633
Net cash from financing and miscellaneous sources		(273,711,244)
Net change in cash and short-term investments		(314,801,248)
Reconciliation:		
Cash and short-term investments, January 1, 1999		333,171,608
Cash and short-term investments, December 31, 1999		$ 18,370,360

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company
Compulsory and Security Surplus Calculation
December 31, 1999

Assets		$3,207,372,682	
Less investment in insurance subsidiaries not in excess of subsidiaries' security surplus		0	
Less net examination adjustments*		35,612,539	
Less liabilities		2,538,568,322	
Adjusted surplus			$633,191,821
Annual premium, less dividends to policyholders:			
Individual accident and health	$ 8,720,854		
Factor	15%		
Total		1,308,128	
Group accident and health	52,773,841		
Factor	10%		
Total		5,277,384	
All other insurance	1,033,514,304		
Factor	20%		
Total		206,702,861	
Compulsory surplus (subject to a minimum of $2 million)**			213,288,373
Compulsory surplus excess (or deficit)			$419,903,448
Adjusted surplus			$633,191,821
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million with a minimum of 110%)			234,617,210
Security surplus excess (or deficit)			$398,574,611

* These consist of the adjustments of the examination report as shown under the caption "Reconciliation of Policyholders' Surplus." Accordingly, the compulsory and security surplus excesses reflected in this schedule differ from the figures reported by the company in its supplementary filing with the 1999 annual statement.

** Pursuant to s. Ins 51.80 (3) (b), Wis. Adm. Code, the $2,000,000 minimum compulsory surplus does not apply to insurers, such as Employers, that were first authorized to do business in Wisconsin prior to January 1, 1982, unless otherwise required by statute or administrative order. No such statute or administrative order applies to Employers.

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Three-Year Period Ending December 31, 1999

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1997	**1998**	**1999**
Surplus, beginning of year	$494,757,681	$525,221,022	$575,000,000
Net income	73,575,960	250,387,377	68,124,237
Net unrealized capital gains or (losses)	15,920,940	(17,827,493)	(2,468,549)
Change in nonadmitted assets	(28,155,906)	31,949,282	(17,191,121)
Change in provision for reinsurance	(7,758,524)	1,589,014	(315,639)
Change in foreign exchange adjustment	5,552,804	(2,385,750)	0
Change in excess of statutory reserves over statement reserves	(178,000)	(68,000)	251,000
Change in surplus notes	0	(180,000,000)	0
Write-ins for gains and losses in surplus:			
Discontinued business surplus adjustment	(1,764,264)	(1,859,543)	0
Workers compensation deferred income	184,182	0	0
Interest paid on surplus notes	(25,000,000)	(27,083,333)	0
Accounts payable	(1,913,851)	(5,173,576)	0
Nationwide surplus true up	0	251,000	45,438,065
Change in accumulated translation adjustment	0	0	(33,633)
Change in surplus as regards Policyholders for the year	30,463,341	49,778,978	93,804,360
Surplus, end of year	$525,221,022	$575,000,000	$668,804,360

Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 1999

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	**1997**	**1998**	**1999**
#1	Gross Premium to Surplus	409%	292%	286%
#1A	Net Premium to Surplus	253	118	166
#2	Change in Net Writings	5	(49)*	63*
#3	Surplus Aid to Surplus	1	1	1
#4	Two-Year Overall Operating Ratio	98	107*	110*
#5	Investment Yield	6.2	6.9	6.4
#6	Change in Surplus	7	(3)	19
#7	Liabilities to Liquid Assets	105*	99	98
#8	Agents' Balances to Surplus	8	13	14
#9	One-Year Reserve Development to Surplus	(3)	(5)	(2)
#10	Two-Year Reserve Development to Surplus	(4)	(7)	(10)
#11	Estimated Current Reserve Deficiency to Surplus	9	2	(99)

The 1997 result for Ratio No. 7, “Liabilities to Liquid Assets,” reflected an inability to recover from the decline in surplus occasioned by unrealized capital losses on investments in indirect wholly owned property and casualty subsidiaries in 1996. These subsidiaries, together with all participants in the Nationwide Group Pool, incurred significant catastrophe losses during 1996.

Ratio #2, “Change in Net Writings”, for 1998 was rendered unusual because reinsurance transactions related to the disaffiliation from Nationwide Mutual Insurance Company had the effect of substantially reducing net premiums written. Ratio #4, “Two-Year Overall Operating Ratio”, for 1998 reflects unsatisfactory underwriting results in 1997 and 1998.

There were two unusual IRIS ratios for 1999. As previously noted, Ratio #2, “Change in Net Writings”, for 1998 was rendered unusual due to reinsurance transactions that had the effect of substantially reducing net premiums written. The apparent recovery in premium volume in 1999 was not the result of growth. Direct premiums written declined substantially after affiliation with Liberty Mutual Insurance Company in comparison to the years immediately preceding the disaffiliation from Nationwide Mutual. Ratio #4, “Two-Year Overall Operating Ratio”, reflects unsatisfactory underwriting results in 1998 and 1999.

Financial Experience of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company

Year	Direct Premiums Written	Net Premiums Written	Premiums Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
1995	1,125,721,313	1,436,819,291	1,415,727,786	88.2	24.8	113.0
1996	927,788,211	1,268,997,684	1,296,863,036	87.4	25.1	112.5
1997	751,488,974	1,329,763,013	1,309,490,423	78.8	26.4	105.2
1998	704,091,071	680,324,223	1,091,854,933	101.5	36.4	137.9
1999	776,684,998	1,110,080,983	897,572,301	91.8	20.3	112.1

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1995	3,403,190,741	2,853,683,876	549,506,865	110,840,771
1996	3,096,811,348	2,602,053,667	494,757,681	21,639,737
1997	3,120,611,358	2,595,390,336	525,221,022	73,575,960
1998	2,825,909,258	2,250,909,258	575,000,000	250,387,377
1999	3,207,372,682	2,538,568,322	668,804,360	68,124,237

Effective January 1, 1996, the company's participation in the Nationwide reinsurance pool decreased from 18.8% to 16.4%. The pool readjustments led to notable decreases in gross premiums written, net premiums written, premiums earned, admitted assets, and liabilities.

During 1996, the company contributed $70 million to Wausau Service Corporation, which, in turn, made capital contributions to certain of its insurance subsidiaries. These contributions facilitated the realignment of pooling participations among the Wausau Insurance Companies, and offset the adverse effects of catastrophic property losses precipitated by Hurricane Fran. Most of Employers' decline in policyholders' surplus in 1996 was attributable to unrealized capital losses on subsidiaries.

The company underwent another major change in 1998 and 1999. Effective December 31, 1998, the company withdrew from the Nationwide Group Pool. For a brief moment in time coinciding with the close of business on December 31, 1998, the company was not a participant in a reinsurance pool. Liabilities decreased as of December 31, 1998, because as a participant in the Nationwide Group Pool the company had higher writings leverage on a net basis than on a direct basis. Notwithstanding underwriting losses of $(260,289,558) in 1998, the company reported a net income of $250,387,377 because the Affiliation and Contribution Note Purchase Agreement provided that the surplus of the company as of December 31, 1998, would be $575,000,000. To accomplish this surplus objective, which had been negotiated by a special committee of the company's board of directors and Liberty Mutual, the company sold all of its subsidiaries to Liberty Mutual and Liberty Mutual purchased certain of the company's nonadmitted assets with admissible assets. Effective January 1, 1999, Employers joined the Liberty Mutual Group's reinsurance pool, but with a lower participation percentage than had been the case with the Nationwide Group Pool.

Reconciliation of Policyholders' Surplus

The following schedule is a reconciliation of surplus as regards policyholders between that reported by the company and as determined by this examination:

	Increase	Decrease	
Surplus as regards policyholders December 31, 1999, per annual statement			$668,804,360
Preferred stocks		$36,316	
Common stocks		1,147,150	
Federal and foreign income tax recoverable and interest thereon		3,327,518	
Equities and deposits in pools and associations		14,821,803	
Payable to parent, subsidiaries and affiliates		15,500,000	
Other liabilities		779,752	
Net increase or (decrease)	$0	$35,612,539	(35,612,539)
Surplus as regards policyholders December 31, 1999, per examination			$633,191,821

Examination Reclassifications

	Debit	Credit
Bonds	$83,000,000	
Promissory note - affiliate		$83,000,000
Common stock	29,310,457	
Cash		29,310,457
Miscellaneous assets	44,357,668	
Receivable from parent, subsidiaries and affiliates		44,357,668
Receivable from parent, subsidiaries and affiliates	57,808,584	
Payable to parent, subsidiaries and affiliates		57,808,584
Total reclassifications	$214,476,709	$214,476,709

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were fourteen specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Corporate Records—It is recommended that the company complete its development of a procedure whereby a glossary of corporate contracts is maintained, pursuant to s. 601.42, Wis. Stat. The glossary should include all affiliated agreements without exception, together with such nonaffiliated agreements that meet written scope or materiality criteria established by either management guideline or board resolution.

   Action—Compliance

2. Territory—It is recommended that Schedule T, "Exhibit of Premiums Written," of future statutory annual statements accurately represent the jurisdictions in which the company does business.

   Action—Compliance

3. Accounts and Records—It is recommended that future statutory financial statements accurately reflect the registration of assets.

   Action—Compliance

4. Reconciliation of Accounts—It is recommended that the company reconcile its general ledger accounts for "Equities and Deposits in Pools and Associations" on a timely basis.

   Action—Noncompliance. Further comment is contained in the section of this report captioned, "Equities and Deposits in Pools and Associations."

5. Reconciliation of Accounts—It is recommended that the company undertake at least a cursory review of all line items at least once a year. Such a review need not coincide with annual statement preparation.

   Action—Compliance

6. Commitments and Contingent Liabilities—It is recommended that the company disclose material direct commitments under leases in future statutory annual statements.

   Action—Noncompliance. Further comment is contained in the section of this report captioned, "Commitments and Contingent Liabilities."

7. Real Estate—It is recommended that the company establish and maintain a verifiable record of real estate capitalization and depreciation, with sufficient audit trails to permit detailed testing of depreciation and evaluation of capitalization decisions.

   Action—Noncompliance. Further comment is contained in the section of this report captioned, "Real Estate."

8. Real Estate—It is recommended that the estimated useful life for a real estate asset reflect reasonable assumptions as to the longevity of the improvement.

   Action—Noncompliance. Further comment is contained in the section of this report captioned, “Real Estate.”

9. Cash—It is recommended that the company classify money market mutual funds in accordance with the NAIC’s Annual Statement Instructions – Property and Casualty, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

   Action—Noncompliance. Further comment is contained in the section of this report captioned, “Cash."

10. Cash—It is recommended that the company report checks outstanding net of its cash balances in accordance with the NAIC’s Accounting Practices and Procedures Manual for Property/Casualty Insurance Companies, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

   Action—Compliance.

11. Cash—It is recommended that the company accurately identify the name and location of its cash depositories in Schedule E in accordance with the NAIC’s Annual Statement Instructions – Property and Casualty, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

   Action—Noncompliance. Further comment is contained in the section of this report captioned, “Cash."

12. Short-term Investments—It is recommended that the company report the gross amount of interest received on short-term investments in accordance with the format of the convention annual statement.

   Action—Compliance.

13. Reinsurance Recoverable—It is recommended that the company establish and maintain a verifiable record of the aging of reinsurance recoverable, with sufficient audit trails to permit comparison of annual statement data to specific reinsurance billings.

   Action—Noncompliance. Further comment is contained in the section of this report captioned, “Reinsurance Recoverable.”

14. Miscellaneous Assets—It is recommended that the company treat prepaid insurance as a nonadmitted asset in future statutory financial statements in accordance with the NAIC’s Accounting Practices and Procedures Manual for Property/Casualty Insurance Companies, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

   Action—Compliance.

Summary of Current Examination Results

Commitments and Contingent Liabilities

Lease Commitments on Real Estate

Employers’ operations are coordinated from its home office in Wausau, Wisconsin. The company owns several buildings in Wausau that are used principally for the transaction of its own business. Support services are provided through a network of leased office facilities in 66 cities throughout the United States.

In the prior examination report as of December 31, 1996, it was noted that the company did not have an estimate of its lease commitments as of December 31, 1996, even for internal tracking purposes. There was no disclosure concerning these lease commitments included in the 1996 Notes to Financial Statement. There was no disclosure included in the report of the certified public accountants as of December 31, 1996. It was noted that while affiliates reimburse Employers for their allocated portion of rental expenses, the maintenance of the foregoing leased facilities entailed significant direct commitments that extended into future years. Accordingly, it was recommended that the company disclose material direct commitments under leases in future statutory annual statements.

In the 1999 Notes to Financial Statement, the company indicates that it has no material lease commitments after consideration of the intercompany pooling arrangement. This examination constructed the following estimate of the company's direct lease commitments on real estate as of December 31, 1999, based on a special report prepared by Wausau Service Corporation's personnel for this examination.

Year	**Projected Commitment**
2000	$ 11,185,607
2001	11,946,661
2002	11,348,435
2003	9,075,910
2004	5,916,063
2005	5,602,933
2006	4,791,596
2007	2,894,752
2008	1,158,130
2009	205,087
Total	$64,125,175

While the examination acknowledges that affiliates reimburse Employers for their allocated portion of rental expenses, the maintenance of the foregoing leased facilities as of December 31, 1999, entailed significant direct commitments that extended into future years. It is again recommended that the company disclose material direct commitments under leases in future statutory annual statements.

Surplus Guaranties on Behalf of an Affiliate

As previously noted, Wausau Business Insurance Company is the beneficiary of a series of capital and surplus guaranties undertaken by Employers to facilitate WBIC's acquisition of certificates of authority in certain jurisdictions. At the time Employers undertook to provide these guaranties, Wausau Business Insurance Company was an indirect wholly-owned subsidiary of Employers. Liberty Mutual Insurance Company purchased Wausau Business Insurance Company, together with certain other subsidiaries of Employers effective December 31, 1998. Guarantees made to Connecticut, Maine, and New Jersey, which were in force as of December 31, 1996, have expired or been replaced with a guaranty from Liberty Mutual Insurance Company. Guaranties made by Employers that were in force as of December 31, 1999, are summarized as follows:

State	Date of Agreement	Minimum Policyholders' Surplus Guaranteed	Duration of Guaranty
North Carolina	02/07/91	$4,500,000	Duration of license
Oklahoma	09/05/90	8,000,000	None specified
Virginia	02/06/92	4,500,000	Duration of license

Unless the ownership of Wausau Business Insurance Company is expected to revert back to Employers, one would not normally expect an insurer to guarantee the solvency of an entity in which it has neither an equity interest nor some other right to the profits of the entity. Against this principle, the historical fact is that certain perpetual guaranties were made. The examination is unable to understand why a regulatory authority would not conclude after short study that a guaranty from Liberty Mutual Insurance Company, the leader of the Liberty Mutual Pool, is equivalent if not superior to the existing guaranty from Employers. However, the possibility exists that a regulatory authority might refuse novation of an existing guaranty. In that event, Employers should receive some reasonable compensation from the beneficiary of the guaranty. It is recommended that the company cease to provide surplus guaranties for corporations for which it has neither an ownership interest nor other commercial incentive to extend such guaranties. If it is not possible to withdraw one or more existing surplus guaranties, then it is recommended that the company enter into an agreement to secure fair and reasonable compensation from the beneficiary of the guaranties.

Bonds

The examination increased the line item for bonds by $83,000,000, from the $2,372,173,497 reported to $2,455,173,497, due to a reclassification from a write-in line item for other than invested assets designated as "promissory note – affiliate."

Employers entered into a Transfer and Purchase Agreement dated as of December 17, 1999, to sell its national accounts and surety business to Liberty Mutual Insurance Company for $83,000,000. This transaction was consistent with the decision to reconfigure the Wausau Insurance Companies to market business exclusively through independent agents. The purchase price for the books of business was supported by valuation reports prepared by an independent public accounting firm and the OCI declined to disapprove this transaction following a review pursuant to s. 611.78, Wis. Statutes.

Liberty Mutual Insurance Company financed the purchase with a $83,000,000 promissory note bearing interest at 6.95% with a term of five years ending December 17, 2004. Interest is due annually in advance. Principal is due on maturity, but there is no prepayment penalty.

As previously noted, this investment was reported as a write-in item for other than invested assets. This examination does not assert that this reporting treatment was necessarily inappropriate. However, the fact that this promissory note was handled outside of the usual investment record management process might have contributed to ongoing failure to disclose this promissory note as being an investment in an affiliate in the Five-Year Historical Data pages of annual statements and in the General Interrogatories of quarterly statements. Reporting the promissory note as an affiliated private placement bond on Schedule D – Part 1 in future statutory annual statements would almost certainly solve the disclosure problem as well as conveying more complete information about the characteristics of and returns on this security. It is recommended that the company report its promissory note from Liberty Mutual Insurance Company as an affiliated private placement bond on Schedule D – Part 1 in future statutory financial statements.

Preferred Stocks

The company reported $36,316 in preferred stocks, consisting of 16,735 shares in two distinct classes of preferred shares issued by Censtor Corporation. These securities were not on deposit with any of the company's investment custodians and the company was unable to produce share certificates or other evidence of ownership of these securities. This resulted in an examination adjustment of $(36,316) to the line item for "Preferred Stocks," resulting in a balance of zero for purposes of this examination.

Common Stocks

The balance of $1,718,238 reported by the company consisted of holdings of common shares of Censtor Corporation and Facility Insurance Holding Corporation. The examination resulted in a balance of $29,881,545. The difference is summarized as follows:

Balance per company		$ 1,718,238
Adjustments:		
Nonadmit common shares of Censtor Corporation	$ (195,337)	
Adjustment to valuation of common shares of Facility Insurance Holding Corporation	(951,813)	
Reclass of money market mutual funds from cash	29,310,457	
Total adjustments and reclassifications per examination		28,163,307
Balance per examination		$29,881,545

The company reported ownership of 60,382 common shares of Censtor Corporation. These securities were not on deposit with any of the company's investment custodians and the company was unable to produce share certificates or other evidence of ownership of these securities. This resulted in an examination adjustment of $(195,337) to this line item.

The company reported ownership of 1,522,901 common shares of Facility Insurance Holding Corporation with a market value of $1 per share, while the Securities Valuation Office set a value of $0.375 per share on these securities. This resulted in an examination adjustment of $(951,813) to this line item.

The examination has increased this line item by $29,310,457 due to the reclassification of certain money market mutual funds from cash. The circumstances of this reclassification are described in the section of this report captioned, "Cash."

Real Estate

The company's real estate consisted of land and buildings located in Wausau, Wisconsin, which were used principally for the transaction of its own business. Buildings included the home office complex, the Westwood Training Center, a regional office, the company's former home office in downtown Wausau, and a replica of the company's trademark railroad station building. The latter building was used as a reception center.

The company's practice, in part due to the constraints of its software system for real estate capitalization and depreciation, was to classify related invoices as a capital project group. The software system treated a group as a single asset with a given useful life. The software system calculated each capital project group's depreciation using a straight-line unrecovered cost method over the group's estimated useful life. Whenever additions to a capital project group were made during its first calendar year of existence, depreciation was calculated using the date of the first invoice allocated to that capital project group. After the first year, the system depreciated new additions to a group using the group's remaining life.

The company's calculations for depreciation for any given capital project group could not be fully tested without a detailed report of invoices that together compose that capital project group. However, the company's software system was not capable of generating such a report. Accordingly, there was no audit trail to permit detailed testing of depreciation or evaluation of capitalization decisions.

In addition, the company was not able to supply invoices for improvements recorded in the first half of 1999. Effective July 1, 1999, data in support of the line items for "Real Estate," "Electronic Data Processing Equipment," and "Furniture, Equipment and Supplies" underwent a system conversion, so that the company's fixed asset tracking system would operate on the same platform as the rest of the Liberty Mutual Group. Tracking numbers that had been in place for these assets were replaced with tracking numbers compatible with Liberty Mutual's fixed asset tracking system. In this process, no conversion table was created to permit one to trace the new tracking number to the old and thence to invoice support for the original cost basis.

It is again recommended that the company establish and maintain a verifiable record of real estate capitalization and depreciation, with sufficient audit trails to permit detailed testing of depreciation and evaluation of capitalization decisions.

As previously noted, the company's software system treated each capital project group as one asset with one estimated useful life. In many cases, this would not present a problem because the assets within a capital project group would, in fact, be of like kind and similar duration. However, the previous examination noted that there were significant exceptions. One example was that of a cooling tower project started in 1995. That project was being depreciated over an estimated useful life of 38 years. In part due to the constraints of the software system, landscaping included around the tower was included in the same capital project group as the tower itself. Landscaping is usually depreciated for 10 to 12 years; 38 years is not a reasonable assumption for the estimated useful life of landscaping. Due to the state of the company's records with respect to real estate, the examination was unable to determine whether the company had complied with the prior examination report's recommendation that the estimated useful life for a real estate asset reflect reasonable assumptions as to the longevity of the improvement. It is again recommended that the estimated useful life for a real estate asset reflect reasonable assumptions as to the longevity of the improvement.

Cash

This balance sheet item was intended to represent money, negotiable money orders, bank drafts and checks, and balances on deposit with banks after any outstanding items have been deducted. The company reported a balance for this line item of $(42,420,073) as of December 31, 1999, while the examination resulted in a balance of $(71,730,530) due to a reclassification of $(29,310,457) in certain money market mutual fund balances to common stock.

The balance of $(42,420,073) reported by the company consisted of the following:

Description	Balance
70 bank accounts at 13 depositories	$(71,886,682)
37 accounts with a money market mutual fund sponsored by Firstar Trust Company	25,586,343
5 accounts with a money market mutual fund sponsored by M&I 1st American National Bank	3,625,146

2 negotiable certificates of deposit in the custody of CIBC Oppenheimer	156,000
1 account with a money market mutual fund sponsored by CIBC Oppenheimer	98,968
Various petty cash funds	2,605
Unreconciled difference for CIBC Oppenheimer account	(2,453)
Total	$(42,420,073)

In the examination report as of December 31, 1996, it was recommended that the company classify money market mutual funds in accordance with the NAIC's Annual Statement Instructions – Property and Casualty, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

According to the NAIC's Annual Statement Instructions – Property and Casualty, money market mutual funds as defined by Purposes and Procedures Manual of the NAIC Securities Valuation Office Sections 4(A)(i) and 4(A)(a)(ii) were to be reported as short-term investments on Schedule DA. Money market mutual funds not meeting this restrictive definition were to be classified as common stocks for financial statement reporting purposes. Money market mutual funds were not to be reported as cash on Schedule E.

The $29,310,457 maintained in the money market mutual funds should have been reported as common stock because these money market mutual funds did not meet the restrictive definition generally required for classification as a short-term investment. This reclassification has been reflected in the section of this report captioned, "Reconciliation of Policyholders' Surplus." Accounting guidance has since changed to permit money market mutual funds to be reported on Schedule E, so the previous examination report's recommendation need not be repeated.

In the examination report as of December 31, 1996, it was recommended that the company accurately identify the name and location of its cash depositories in Schedule E in accordance with the NAIC's Annual Statement Instructions – Property and Casualty, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code. The name of one depository was not accurately reported in Schedule E of the 1999 annual statement. An account that the company reported as being a deposit with the Canadian Imperial Bank Corporation was actually a brokerage account with CIBC Oppenheimer. In addition, a money market mutual fund sponsored by a bank is often housed in a legal entity that is separate and distinct from the bank itself and this distinction should be recognized in reporting the identity of depositories on Schedule E. This distinction was not recognized in Schedule E of the 1999 annual statement. It is again recommended that the company accurately identify the name and location of its cash depositories in Schedule E in accordance with the NAIC's Annual Statement Instructions – Property and Casualty, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

Reinsurance Recoverable

Two situations were noted by this examination as requiring changes from existing reinsurance accounting practices. These items related to:

1. Aging of ceded reinsurance
2. Re-aging of ceded reinsurance

Aging of Ceded Reinsurance

The examination noted numerous discrepancies between Schedule F of the 1999 annual statement and the company's aging reports that track reinsurance balances. In some instances, the company listed all balances with respect to a given reinsurance treaty with just one of the numerous participants on a treaty on Schedule F. In other instances, the underlying aging report that was intended to support Schedule F listed all balances under the name of one participant, while Schedule F listed the numerous participants. For example, the entire reinsurance recoverable on the second-layer casualty excess of loss treaty for 1984 is indicated on Schedule F as being due from Home Re Syndicate, Inc. Home Re Syndicate, Inc. is one of 17 participants, with 5.128% participation on the treaty. Examples of the other instance are Reinsurance Contracts #676, #1912, #1994, and #4012 for which the aging reports do not allocate the balances to the individual participants.

The examination noted a few instances in which the name of a reinsurer listed in Schedule F was not the same as the name indicated on the underlying aging report. For example, in seeking to verify the aging of balances due from Constitution Reinsurance Company, the examiners were provided a report that was consistent with the information in the annual statement, except that Gerling America Insurance Company was designated as the reinsurer. In another instance, Munich Reinsurance Company is listed as North America Limited on an underlying aging report. It is again recommended that the company establish and maintain a verifiable record of the aging of reinsurance recoverable, with sufficient audit trails to permit comparison of annual statement data to specific reinsurance billings.

Re-Aging of Ceded Reinsurance

The examination noted that Employers is in the practice of re-aging reinsurance balances recoverable, whereby the reinsurance department resets the dates from which reinsurance balances are aged. In this manner, selected reinsurances balances that would otherwise be overdue are indicated as current. Justifications for this practice include: receipt of a request for additional information from a broker or reinsurer; failure of a reinsurer to receive an invoice; and the company filing the invoice late.

Controls on the process include restricted authorization and maintenance of a specialized transaction log. Authorization to make changes to the aging of reinsurance billings is restricted to the supervisor of the reinsurance collection unit and the Director of Corporate and Reinsurance Accounting. The specialized transaction log includes detail sufficient to identify the re-aged invoice, the original date of the invoice, and the initials of the person who approved the transaction. In addition, copies of cover letters accompanying responses to requests for additional information are kept on file as proof of the validity of the change.

The practice of re-aging reinsurance recoverable is generally objectionable. The examination review of the log of aging date changes for 1999 indicated a concentration of re-aging transactions in the last two months of the year. Based on the log of aging date changes, the financial impact of the practice is immaterial. However, the completeness of the log of aging date changes would be difficult to evaluate with any degree of assurance. Furthermore, while clerical error in the original entry would present a valid reason for correction, none of the justifications offered by the company's internal policy statement on re-aging is consistent with the instructions for Schedule F, Part 4 in the NAIC's Annual Statement Instructions – Property and Casualty. It is recommended that the company cease re-aging outstanding paid losses and loss adjustment expenses recoverable.

Federal Income Tax Recoverable and Interest Thereon

This line item represents the company's estimate of federal and foreign income tax recoverable. Although Employers was a member of the Liberty Mutual Group through its affiliation agreement with Liberty Mutual Insurance Company, among other agreements affirming this affiliation, it was not under common ownership control with Liberty Mutual Insurance Company. Therefore, the company was not eligible to file a consolidated federal income tax return for 1999.

While Employers correctly anticipated that it would not owe federal income tax under the common method of computation, it did not anticipate the effect of the alternative minimum tax, which amounted to $3,929,272 for 1999. Differences between the balances that comprised this line item as recorded by the company and the balances determined by this examination are as follows:

Balance Description	**Balance Per Company**	**Difference**	**Balance Per Examination**
Federal income tax recoverable	$3,806,709	$(3,327,518)	$479,191
Canadian income tax recoverable	140,422	-0-	140,422
State income tax recoverable	11,771	-0-	11,771
Total	$3,958,902	$(3,327,518)	$631,384

The difference of $(3,327,518) with respect to the federal income tax recoverable estimated by the company takes into account the alternative minimum tax paid by the company for 1999, together with the 1998 overpayment carried forward and estimated tax payments made in 1999. This adjustment is reflected in the section of this report captioned, "Reconciliation of Policyholders' Surplus."

The state income tax recoverable should have been recorded as a contra-liability in the line item for "Taxes, Licenses and Fees," but this reclassification was waived for purposes of this examination due to the immateriality of that balance.

Electronic Data Processing Equipment

This line item represents electronic data processing equipment and operating system software owned by the company, net of accumulated depreciation. The cost of applications software, net of accumulated depreciation is also reported on this line item, but nonadmitted. As of December 31, 1999, the company reported an admitted asset balance of $13,098,653 in electronic data processing equipment.

As was the case with real estate and furniture, equipment, and supplies, individual entries for the original purchase price on accounting reports maintained in support of the balance for electronic data processing equipment could not be traced to invoices. The reason for this absence of an audit trail is described in the section of this examination captioned, “Real Estate.” The examination accepted the company’s reported balance for purposes of this examination based on workpapers prepared by the company’s public accountants in review of this account before the break in the audit trail occurred. The examination concluded there was little consequence to the lack of an audit trail in this instance. These assets are depreciated over a relatively short period of time. Purchases of electronic data processing equipment that are recorded directly on Liberty Mutual’s fixed asset tracking system should be traceable to specific invoices.

Receivable from Parent, Subsidiaries and Affiliates

The company reported a balance for this line item of $34,329,107 as of December 31, 1999, while this examination resulted in a balance of $47,780,023. The difference is summarized as follows:

Balance per company		$34,329,107
Reclassifications:		
Reclasses to Miscellaneous Assets	$(44,357,668)	
Reclass payable balances to “Payable to Parent, Subsidiaries and Affiliates”	57,808,584	
Net reclassifications per examination		13,450,916
Balance per examination		$47,780,023

The examination reclassified two general ledger accounts from this line item to “Miscellaneous Assets.” The examination reclassified a receivable balance from Nationwide Mutual Insurance Company on behalf of Key Health Plans Inc. in the amount of $41,457,737 to this line item from the line item for “Receivable from Parent, Subsidiaries and Affiliates,” because neither Nationwide Mutual Insurance Company nor Key Health Plans Inc. were affiliates as of December 31, 1999. The examination reclassified a receivable balance from Nationwide Mutual

Insurance Company on behalf of Colonial County Mutual Insurance Company in the amount of $2,899,931 to this line item from the line item for “Receivable from Parent, Subsidiaries and Affiliates,” because Colonial County Mutual Insurance Company was not an affiliate as of December 31, 1999. These reclassifications are reflected in the section of this report captioned, “Reconciliation of Policyholders’ Surplus.”

The examination reclassified $57,808,584 in contra-asset balances from this line item to “Payable to Parent, Subsidiaries and Affiliates." While it is acceptable to offset the receivable and payable balances with respect to the same affiliate, it is unacceptable to offset amounts payable to one affiliate by amounts receivable from another affiliate for annual statement reporting purposes. This reclassification is reflected in the section of this report captioned, “Reconciliation of Policyholders’ Surplus per Examination.” It is recommended that the company discontinue the practice of offsetting affiliated balances of different companies.

Equities and Deposits in Pools and Associations

The previous examination as of December 31, 1996, noted general difficulty with respect to the timeliness of account reconciliations involving several annual statement line items and provided specific examples of the practical impact of this difficulty. In the current examination, timeliness of account reconciliations had improved. However, it remained problematic with respect the line item for “Equities and Deposits in Pools and Associations.

As of December 31, 1999, the company reported a balance for this line item of $11,648,681. This line item represents the aggregate sum of 86 general ledger accounts, representing the company’s balances with mandatory pools and associations.

In the prior examination as of December 31, 1996, the examination team selected seven general ledger accounts representing 76.4% of the absolute value of all of the general ledger account balances as a sample to evaluate the accuracy of the overall balance. It was noted that for three of the seven accounts sampled, the company had no record of having prepared reconciliations within the last ten years. For another two of the seven, there was no record of reconciliation since 1990 and 1991, respectively. For yet another account, while there were regular efforts to adjust its balance, company personnel were unable to document the general ledger balance as of December 31, 1996. Accordingly, it was recommended that the company reconcile its general ledger accounts for “Equities and Deposits in Pools and Associations” on a timely basis.

The current examination noted a continuation of problems in the reconciliation of the accounts that comprise this line item. There was no record of the last reconciliation for any of the FAIR (Fair Access to Insurance Requirements) plan accounts. Most auto plan accounts had been reconciled through January 1, 2000, but no reconciliations could be supplied for the accounts for the auto plans in Massachusetts, Michigan, New York, North Carolina, Hawaii, and Alaska. Furthermore, the balances of the reconciled accounts for auto plans did not agree with the corresponding general ledger balances.

The consequences of the reconciliation problem cannot be reliably projected. General ledger accounts comprising this line item that had debit balances have been nonadmitted by this examination for lack of support. General ledger accounts comprising this line item that had credit balances have been accepted for purposes of this examination for lack of a basis to propose any better estimate. The company reported a balance for this line item of $11,648,681 as of December 31, 1999, while this examination resulted in a balance of $(3,173,122) due to the $14,821,803 adjustment to nonadmit the accounts with debit balances. This adjustment is reflected in the section of this report captioned, “Reconciliation of Policyholders’ Surplus.” It is again recommended that the company reconcile its general ledger accounts for “Equities and Deposits in Pools and Associations” on a timely basis.

Miscellaneous Assets

This line item consists of miscellaneous balances receivable relating to guaranty funds, certain voluntary joint underwriting associations, third-party administrators, prepaid insurance, intercompany balances with former affiliates, among other accounts. The company reported a balance for this line item of $61,738,539 as of December 31, 1999, while this examination resulted in a balance of $106,096,207. The difference is summarized as follows:

Balance per company		$61,738,539
Reclassifications and adjustments:		
Reclass of receivable from Nationwide Mutual Insurance Company on behalf of Key Health Plans Inc.	$41,457,737	
Reclass of receivable from Nationwide Mutual Insurance Company on behalf of Colonial County Mutual Insurance Company	2,899,931	
Net adjustment per examination		44,357,668
Balance per examination		$106,096,207

The examination reclassified a receivable balance from Nationwide Mutual Insurance Company on behalf of Key Health Plans Inc. in the amount of $41,457,737 to this line item from the line item for "Receivable from Parent, Subsidiaries and Affiliates," because neither Nationwide Mutual Insurance Company nor Key Health Plans Inc. were affiliates as of December 31, 1999. This balance was more than 90 days past due, but has been accepted as admitted pending the outcome of litigation. The examination reclassified a receivable balance from Nationwide Mutual Insurance Company on behalf of Colonial County Mutual Insurance Company in the amount of $2,899,930.59 to this line item from the line item for "Receivable from Parent, Subsidiaries and Affiliates," because NMIC and Colonial County Mutual Insurance Company were not affiliates as of December 31, 1999. These reclassifications are reflected in the section of this report captioned, "Reconciliation of Policyholders' Surplus."

Promissory Note – Affiliate

The balance of $83,000,000 reported by the company for this line item consisted of a promissory note issued by Liberty Mutual Insurance Company to finance its purchase of Employers' national accounts and surety business. The examination reclassified this item to the line item for bonds. This reclassification is reflected in the section of this report captioned, "Reconciliation of Policyholders' Surplus." The circumstances of this reclassification are described in the section of this report captioned, "Bonds."

Furniture, Equipment and Supplies

The plan of affiliation by and between Employers and Liberty Mutual Insurance Company established that Employers would have $575,000,000 in policyholders' surplus as of

December 31, 1998. This objective was in part accomplished, as provided by the Affiliation and Contribution Note Purchase Agreement, through Liberty Mutual's purchase of $15,000,000 in furniture and equipment with admissible assets. As provided in the agreement, Employers then leased back this furniture and equipment.

Of this $15,000,000, $258,651 consisted of the book value of Employers' holdings of fine art. It is not reasonable to sell fine art at book value, absent consideration of its fair value. Based on discussions with the company, it appears that the effort in research to effectuate a reversal of this transfer would be quite extensive. It is recommended that, in the future, the sale of fine art among affiliates be based on formal appraisal. Furthermore, in the event that any fine art located in or originating from the company's Wisconsin offices is sold, the proceeds should be credited to Employers.

As was the case with real estate and electronic data processing equipment, individual entries for the original purchase price on accounting reports maintained in support of the balance for furniture, equipment and supplies could not be traced to invoices. The reason for this absence of an audit trail is described in the section of this examination captioned, "Real Estate." Apart from the matter of fine art, the examination concluded there was little consequence to the lack of an audit trail in this instance. The line item for "furniture, equipment and supplies" represents a nonadmitted asset. These assets are depreciated over a relatively short period of time. Purchases of furniture, equipment and supplies that are recorded directly on Liberty Mutual's fixed asset tracking system should be traceable to specific invoices.

Losses and Loss Adjustment Expenses

Since January 1, 1999, the company has been a participant in a reinsurance pooling agreement with Liberty Mutual Insurance Company and certain of its property and casualty insurance subsidiaries and other affiliates. The company's net loss and loss adjustment expense reserves are the product of the reserves of the Liberty Mutual Group Pool and the company's participation percentage in the pool.

As part of its engagement by the Massachusetts Division of Insurance to assist in the overall examination of Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance

Company, PricewaterhouseCoopers LLP reviewed the adequacy of the company's loss reserves and loss adjustment expense reserves, including the provisions for environmental claims, as a function of its participation in the pool.

The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

The results of PricewaterhouseCoopers LLP's actuarial review indicated that the company's reserves at December 31, 1999, made an adequate provision for all unpaid loss and loss adjustment expense obligations of the company under the terms of its policies and reinsurance agreements.

Other Expenses

This line item represents incurred but unpaid other underwriting and investment expenses, excluding taxes, licenses and fees. The company reported a balance for this line item of $30,589,386 as of December 31, 1999.

For a company of the size and complexity of Employers, the line item for "Other Expenses" consists of numerous accruals that can be made only through careful estimation in good faith. This examination conducted an extensive review of the accruals that comprised the line item for "Other Expenses" and determined that the company's estimates were reasonable overall. Omissions to accrue and under-accrual of executive compensation and benefit plans was the only exception to the overall reasonableness in the company's estimation procedures. The substantive effect of these omissions and under-accruals was not material, but the company should address this situation. It is recommended that the company estimate its liabilities with respect to each executive compensation and benefit program and record such estimates on future statutory financial statements.

Provision for Reinsurance

On March 25, 1999, OCI issued a permitted practice decision whereby the company may regard the Nationwide Indemnity Company treaty as satisfactory security with regard to the calculation of the Schedule F statutory penalty on authorized and unauthorized reinsurance recoverables covered by the treaty. This decision succeeded one dated December 28, 1998, whereby relief on the provision for reinsurance was limited to unauthorized reinsurance recoverables covered by the treaty with Nationwide Indemnity Company. Both permitted practice decisions were conditioned upon disclosure of the permitted practice in a note to each statutory financial statement issued by the company, together with a statement in this disclosure indicating the financial impact of the permitted practice. While both permitted practice decisions predated the effectiveness of the NAIC's Statements of Statutory Accounting Principles, such disclosure would currently be required by paragraph 7 of SSAP No. 1. The disclosure upon which these permitted practice decisions were conditioned was not made in the 1999 annual statement. It is recommended that the company disclose the existence and financial impact of permitted practice decisions related to the calculation for the provision for reinsurance in a note to each statutory financial statement issued by the company pursuant to paragraph 7 of SSAP No. 1.

Payable to Parent, Subsidiaries and Affiliates

As of December 31, 1999, the company reported a liability of $0 for "Payable to Parent, Subsidiaries and Affiliates," while the examination resulted in a balance of $(73,308,584). The difference is summarized as follows:

Balance per company		$-0-
Adjustments and Reclassifications:		
Reclass from "Receivable from Parent, Subsidiaries and Affiliates"	$(57,808,584)	
Adjustment to intercompany balance with Liberty Mutual Insurance Company	(15,500,000)	
Net reclassifications per examination		(73,308,584)
Balance per examination		$(73,308,584)

The examination reclassified $57,808,584 in contra-asset balances to this line item from "Receivable from Parent, Subsidiaries and Affiliates." This reclassification has been reflected in the section of this examination report captioned, "Reconciliation of Policyholders' Surplus per Examination." The circumstances of this reclassification have been described in the section of this examination report captioned, "Receivable from Parent, Subsidiaries, and Affiliates."

Employers joined the Liberty Mutual Group's reinsurance pool effective January 1, 1999. During the first quarter of 1999, Employers assumed a portion of the reinsurance pool's collective liability for the “Provision for Reinsurance.” During the last quarter of 1999, the Liberty Mutual Group’s affiliated pooling agreement was amended to exclude the member companies’ respective liabilities for the “Provision for Reinsurance” from pooling. As a result, an adjustment was made in the fourth quarter of 1999 to reverse Employers’ assumption of liability for the “Provision for Reinsurance” from Liberty Mutual Group’s reinsurance pool. Inadvertently, the company’s personnel overlooked the need to reverse the impact of that adjustment to other changes in surplus items. The company’s personnel discovered this oversight in the first quarter of 2000, when an adjustment of $(15,500,000) was made through the intercompany account with Liberty Mutual Insurance Company to make the necessary reversal for changes to other surplus items. This adjustment has been reflected in the section of this examination report captioned, “Reconciliation of Policyholders’ Surplus per Examination”.

Other Liabilities

The company reported a balance of $(37,704,194) for this line item as of December 31, 1999. Among the general ledger accounts that comprise this line item is account #204212, which is designated “Miscellaneous Liabilities – Pool Charge-Off Clearing." According to company personnel, the account was used to record non-reimbursable charge-offs for business related to the company’s participation in workers’ compensation pools. Entries to this account consist of entries with a balance of less than $1 or entries to correct accounting errors. While the company reported a contra-liability of $779,752 for this account, the very nature of the account suggests that it should not represent an asset. Accordingly, the balance of this account has been nonadmitted, thereby increasing the liability for “Other Liabilities” from $(37,704,193) to $(38,483,945).

Among the general ledger accounts for this line item is a reserve for checks charged off, which represents funds that are escheatable to the various states unless the payees can be located prior to the applicable deadlines for remittance to the unclaimed property funds. In the course of the examination’s review of the company’s procedures with respect to unclaimed property, it was noted that the company was late in filing reports of unclaimed property with the states in 2000. Company personnel attributed this delay to the transition of abandoned property reporting responsibilities from Wausau, Wisconsin to Dover, New Hampshire and a concomitant software system conversion for tracking escheatable items. The examination believes this explanation to be reasonable, but also believes that a recommendation is in order. It is recommended that the company file unclaimed property reports on a timely basis in accordance with ch. 177, Wis. Stat., and the equivalent laws of other states in which it operates.

Subsequent Events

Since the conclusion of fieldwork on October 20, 2000, there have been a number of noteworthy developments with respect to the company's holding company system and management and control.

Mutual Holding Company Restructuring

In 2000, Liberty Mutual Insurance Company filed an application to restructure under a mutual holding company plan pursuant to the laws of the Commonwealth of Massachusetts. The laws of both Massachusetts and Wisconsin allow a mutual insurance company to convert to a stock insurance company by placing the mutual policyholders' ownership rights in a mutual holding company, which then becomes the owner of the newly-converted stock insurance company. On November 9, 2001, Liberty Mutual's policyholders approved the reorganization of their company into a mutual holding company structure, and on November 27, 2001, Massachusetts' Commissioner of Insurance approved the reorganization. On November 28, 2001, Liberty Mutual became a stock corporation under the control of Liberty Mutual Holding Company Inc., which contributed all of the issued and outstanding common shares of Liberty Mutual to LMHC Massachusetts Holdings Inc., which, in turn, contributed this stock to Liberty Mutual Group Inc. In this manner, Wausau General Insurance Company became a fifth-tier subsidiary of Liberty Mutual Holding Company, Inc.

Employers pursued a mutual holding company restructuring under the laws of the state of Wisconsin in tandem with the efforts of Liberty Mutual. Employers filed an application dated September 15, 2000, to restructure under a mutual holding company plan pursuant to ch. 644, Wis. Stat.

On November 9, 2001, OCI approved Employers' mutual holding company plan. On November 21, 2001, Employers converted to a stock corporation and was renamed "Employers Insurance Company of Wausau," one day after the affirmative vote of its policyholders. Employers became a direct, wholly owned subsidiary of Employers Insurance of Wausau Mutual Holding Company.

On March 14, 2002, the members of Liberty Mutual Holding Company, Inc. voted to approve a merger of Employers Insurance of Wausau Mutual Holding Company with and into Liberty Mutual Holding Company, Inc. This merger was consummated on March 19, 2002.

Current Board of Directors

There have been certain changes to the board of directors since the end of examination fieldwork on October 20, 2000. As of December 5, 2002, the board of directors consisted of the following persons:

Name and Residence	Principal Occupation	Term Expiry
J. Paul Condrin III Walpole, Massachusetts	Senior Vice President and Chief Financial Officer Liberty Mutual Insurance Company	2004
Terry L. Conner Rye, New Hampshire	Senior Vice President and Chief Information Officer Liberty Mutual Insurance Company	2005
A. Alexander Fontanes Duxbury, Massachusetts	Senior Vice President and Chief Investment Officer Liberty Mutual Insurance Company	2005
Joseph A. Gilles Wausau, Wisconsin	President and Chief Operating Officer EMPLOYERS INSURANCE OF WAUSAU A Mutual Company	2005
Gary R. Gregg Milton, Massachusetts	Executive Vice President Liberty Mutual Insurance Company	2003
Edmund F. Kelly Weston, Massachusetts	President and Chief Executive Officer Liberty Mutual Insurance Company	2004
Christopher C. Mansfield Dedham, Massachusetts	Senior Vice President and General Counsel Liberty Mutual Insurance Company	2003
Jeffrey S. Padnos Holland, Michigan	President Louis Padnos Iron & Metal Company	2004

Michael E. Stroh Brookfield, Wisconsin	President Stroh Die Casting Company, Inc.	2003

Current Officers

There have been significant changes in officers since the end of examination fieldwork on October 20, 2000. As of December 5, 2002, the following persons were officers of Employers:

Name	Office/Position
Edmund F. Kelly	Chairman of the Board and Chief Executive Officer
Gary R. Gregg	Vice Chairman of the Board
Joseph A. Gilles	President & Chief Operating Officer
J. Stanley Hoffert	Vice President, General Counsel and Secretary
Juliana M. Coyle	Vice President and Treasurer
David L. Lancaster	Senior Vice President and Manager, Direct Underwriting Operations
Deborah L. Michel	Senior Vice President and General Claims Manager
Mark A. Steinberg	Senior Vice President and General Manager, Sales Business Center
Martin J. Welch	Senior Vice President and Manager, Broker Operations
Scott W. Hogan	Chief Financial Officer
Mark A. Beairsto	Vice President and Manager, Operations and Sales – Sales Business Center
M. Keith Braxton	Vice President and Manager, Broker Distribution
J. Eric Brosius	Vice President and Manager, Domestic Reinsurance
Jeffrey R. Cole	Vice President and Manager, Commercial Accounts – Custom Accounts
Douglas W. Doede	Vice President and Manager, Major Accounts
George W. Doonan	Vice President, Commercial Finance
Robert D. Effinger	Vice President and Manager, Actuarial and Underwriting Products and Services
Gregory A. Getting	Vice President and Manager, Direct Division Field Operations
G. Daniel Glover	Vice President and Manager, Sales – Sales Business Center
James F. Golz	Vice President
Ray D. Hall	Vice President and Manager, Information Systems
Timothy M. Jackson	Vice President and Manager, Marsh Advantage America
Jeffrey D. Kapp	Vice President and Manager, Commercial Accounts – Direct Operations
Michael E. Kern	Vice President and Manager, Sales – Sales Business Center
Marvin F. King	Vice President and Manager, Commercial Accounts
Dennis J. Langwell	Vice President
Dexter R. Legg	Vice President and Assistant Secretary
Carol A. Marinos	Vice President and Manager, Commercial Accounts
Timothy C. Mulloy	Vice President, Loss Prevention
Patrick J. O'Connor	Vice President, Property Underwriting
Gary J. Ostrow	Vice President, Corporate Taxation
Michael L. Parker	Vice President and Manager, Commercial Accounts
Richard V. Poirier	Vice President and Manager, Workers' Compensation Claims
John K. Raybuck	Vice President and Manager, Commercial Accounts
Paul A. Rodliff	Vice President
Edward J. Stark	Vice President and Manager, Alabama Claims

Lawrence H. S. Yahia	Vice President and Assistant Secretary
Christine A. Doede	Assistant Vice President and Manager, Agency Operations – Sales Business Center
Jean M. Fredrickson	Assistant Vice President and Managing Director – Line of Business
David E. Hall	Assistant Vice President and Managing Director – Line of Business
Joan M. Kiburz	Assistant Vice President and Manager, Regional Underwriting
Mikhael I. Koski	Assistant Vice President and Manager, Actuarial Support and Filings
David F. McLaughlin	Assistant Vice President and Assistant Controller II – Sales Business Center
Scott M. Names	Assistant Vice President
W. Craig Olafsson	Assistant Vice President, Counsel and Assistant Secretary
Craig Simonson	Assistant Vice President and Manager, Market Development
John M. Waring	Assistant Vice President and Managing Director – Line of Business
Gregory M. Allard	Assistant Secretary
Diane S. Bainton	Assistant Secretary
Robert J. Besteman	Assistant Secretary
James Pugh	Assistant Secretary
Richard C. Cloran	Assistant Treasurer

Spin-off of Wausau Benefits, Inc.

Effective October 1, 2000, Employers sold and transferred certain assets relating to its health care service business to Wausau Benefits, Inc., a newly formed corporation owned by certain former Employers' management personnel and investors in the Wausau, Wisconsin area. Wausau Benefits, Inc. purchased certain existing contract rights under health claim service agreements as well as certain real estate in Wausau, Wisconsin. The transaction included various service agreements to facilitate the transition or run-off of this health care service business. The effect of this transaction was to terminate Employers' exposure to the health care services business, while allowing the employees of that division an opportunity to continue independently. In accordance with management objectives, direct premiums written by Employers in the group accident and health line declined materially following the transaction.

Formation and Re-acquisition of Subsidiaries

Since December 31, 1999, Employers re-acquired one subsidiary and formed another. The history, purpose, and financial status of these subsidiaries are summarized as follows:

Wausau Holdings, Inc.

Wausau Holdings, Inc. was incorporated in Delaware on September 12, 2000. Employers sponsored the formation of Wausau Holdings, Inc. to act as an intermediate holding company for Wausau (Bermuda)(SAC) Ltd. Direct ownership of Wausau (Bermuda)(SAC) Ltd. was transferred to this intermediate holding company on June 8, 2001.

On a GAAP basis as of September 30, 2002, Wausau Holdings, Inc. reported assets and total shareholders' equity of $5,472,380.

Wausau (Bermuda)(SAC) Ltd.

Wausau (Bermuda)(SAC) Ltd. was incorporated as a Bermuda-domiciled captive insurer on April 25, 1997, under the name, "Wausau (Bermuda) Ltd." It is marketed as a means for middle market clients to gain the advantages of the off-shore captive structure without the commitment of capital and administrative expense required to establish their own captive. Through reinsurance, funds held by the captive on behalf of multiple clients are segregated by client and any underwriting profit or investment income ultimately accrues back to the client. The U.S.-based personnel of Liberty Mutual Insurance Company provide underwriting, claims management, and loss control services.

Wausau (Bermuda)(SAC) Ltd. was organized as a wholly-owned subsidiary of Wausau Service Corporation. Ultimate ownership of the corporation was acquired by Liberty Mutual Insurance Company with its purchase of Wausau Service Corporation effective December 31, 1998. On August 11, 2000, Wausau Service Corporation sold the corporation to Employers. On June 8, 2001, direct ownership of Wausau (Bermuda)(SAC) Ltd. was transferred to Wausau Holdings, Inc. The corporation's name was changed to that presently used effective August 29, 2001.

On a statutory basis as of September 30, 2002, Wausau (Bermuda)(SAC) Ltd. reported assets of $4,588,827, liabilities of $126,447, and policyholders' surplus of $4,462,380.

VIII. CONCLUSION

The period since the prior examination has been one of substantial challenge and accomplishment for the company. Employers was confronted with the termination of its thirteen year affiliation with Nationwide Mutual Insurance Company. In Liberty Mutual Insurance Company, the management of Employers found an affiliation in replacement that provided a means of severing its ties with NMIC in an orderly manner while preserving the continuity of quality service to policyholders and claimants. This process entailed a complex and laborious process of de-pooling thirteen years of accumulated accounting data and effectuating major software systems conversions. The employees of Wausau Service Corporation, a one-time subsidiary of Employers that provided core services to Employers, became employees of Liberty Mutual, with all of the numerous attendant changes in day-to-day operating and reporting procedures. Numerous offices throughout the country were consolidated with those of Liberty Mutual.

In addition to the change in affiliation, there have been material changes in target business and in product distribution in the period since the prior examination. While Employers has long provided its services to a full spectrum of businesses varying by type and size, the company had been particularly well-known for servicing large accounts through in-house account representatives. As part of its integration with the Liberty Mutual Group, Employers refocused its distribution system to market its products exclusively through independent agents. In keeping with this reconfiguration of the product distribution system, Employers sold its surety business and large national accounts to Liberty Mutual and refocused its attention on middle-market business. The company terminated its exposure to health care services business with the spin-off of Wausau Benefits, Inc. and substantially reduced direct premiums written in the group accident and health line.

Employers completed the first mutual holding company restructuring in Wisconsin's history. As part of its restructuring plan, it then united its members' mutual interests with those of Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company by means of a merger of its mutual holding company parent with and into Liberty Mutual Holding Company, Inc.

In this manner, the legal structure of the Liberty Mutual Group became more fully aligned to its operational structure. This has the potential to facilitate the formation and allocation of capital by and within the Liberty Mutual Group.

Policyholders' surplus has increased from $496,813,154 per the examination report as of year-end 1996, to $633,191,821 as of year-end 1999, as determined by this examination. This represents an increase of 27.5% during the period under examination.

The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 1996, when policyholders' surplus was last verified by examination, to December 31, 1999:

Policyholders' surplus, December 31, 1996	$496,813,154
Net income	392,087,574
Change in surplus notes	(180,000,000)
Interest paid on surplus notes	(52,083,333)
Financial examination adjustments as of December 31, 1999	(35,612,539)
Nationwide surplus true-up	45,689,065
Change in nonadmitted assets	(13,397,745)
Accounts payable	(7,087,427)
Change in provision for reinsurance	(6,485,149)
Net unrealized capital gains and (losses)	(4,375,102)
Discontinued business surplus adjustment	(3,623,807)
Change in foreign exchange adjustment	3,167,054
Reversal of financial examination adjustments as of December 31, 1996	(2,055,473)
Workers compensation deferred income	184,182
Change in accumulated translation adjustment	(33,633)
Change in excess of statutory reserves over statement reserves	5,000
Policyholders' surplus, December 31, 1999	$633,191,821

Areas of improvement recommended by this examination included, but were not limited to, the maintenance of audit trails, account reconciliation, disclosure of lease commitments, reinsurance accounting, and annual statement reporting.

While the company is a separate legal entity, it derives all of its net retained business through a pooling arrangement with certain affiliates led by Liberty Mutual Insurance Company. All of the company's operations are conducted by employees of WSC and LMIC, and the results of Employers' operations, other than investment and taxes, are pooled with participants in the Liberty Mutual Group Pool. The experience of the company relative to net premiums, liabilities, and net underwriting results will follow the experience of the affiliated pool. Therefore, the practices and procedures of pool participants, especially Liberty Mutual Insurance Company, which manages the pool, are critical to the operating results of the company.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 72 - Commitments and Contingent Liabilities—It is again recommended that the company disclose material direct commitments under leases in future statutory annual statements.

2. Page 73 - Commitments and Contingent Liabilities—It is recommended that the company cease to provide surplus guaranties for corporations for which it has neither an ownership interest nor other commercial incentive to extend such guaranties. If it is not possible to withdraw one or more existing surplus guaranties, then it is recommended that the company enter into an agreement to secure fair and reasonable compensation from the beneficiary of the guaranties.

3. Page 74 - Bonds—It is recommended that the company report its promissory note from Liberty Mutual Insurance Company as an affiliated private placement bond on Schedule D – Part 1 in future statutory financial statements.

4. Page 77 - Real Estate—It is again recommended that the company establish and maintain a verifiable record of real estate capitalization and depreciation, with sufficient audit trails to permit detailed testing of depreciation and evaluation of capitalization decisions.

5. Page 77 - Real Estate—It is again recommended that the estimated useful life for a real estate asset reflect reasonable assumptions as to the longevity of the improvement.

6. Page 79 - Cash—It is again recommended that the company accurately identify the name and location of its cash depositories in Schedule E in accordance with the NAIC's Annual Statement Instructions – Property and Casualty, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

7. Page 80 - Reinsurance Recoverable—It is again recommended that the company establish and maintain a verifiable record of the aging of reinsurance recoverable, with sufficient audit trails to permit comparison of annual statement data to specific reinsurance billings.

8. Page 80 - Reinsurance Recoverable—It is recommended that the company cease re-aging outstanding paid losses and loss adjustment expenses recoverable.

9. Page 83 - Receivable from Parent, Subsidiaries and Affiliates—It is recommended that the company discontinue the practice of offsetting affiliated balances of different companies.

10. Page 84 - Equities and Deposits in Pools and Associations—It is again recommended that the company reconcile its general ledger accounts for "Equities and Deposits in Pools and Associations" on a timely basis.

11. Page 86 - Furniture and Equipment—It is recommended that, in the future, the sale of fine art among affiliates be based on formal appraisal. Furthermore, in the event that any fine art located in or originating from the company's Wisconsin offices is sold, the proceeds should be credited to Employers.

12. Page 87 - Other Expenses—It is recommended that the company estimate its liabilities with respect to each executive compensation and benefit program and record such estimates on future statutory financial statements.

13. Page 88 - <u>Provision for Reinsurance</u>—It is recommended that the company disclose the existence and financial impact of permitted practice decisions related to the calculation for the provision for reinsurance in a note to each statutory financial statement issued by the company pursuant to paragraph 7 of SSAP No. 1.

14. Page 90 - <u>Other Liabilities</u>—It is recommended that the company file unclaimed property reports on a timely basis in accordance with ch. 177, Wis. Stat., and the equivalent laws of other states in which it operates.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers of the company and employees of Wausau Service Corporation and Liberty Mutual Insurance Company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Andrew M. Fell	Financial Examiner
David A. Grinnell	Financial Examiner
Steven F. Harwick	Financial Examiner
Mark A. Lasowski	Financial Examiner
Cruz J. Flores	Senior Insurance Examiner, Electronic Data Processing Audit Specialist
Frederick H. Thornton	Senior Insurance Examiner, Exam Planning & Quality Control Specialist

Respectfully submitted,

Steven J. Junior
Examiner-in-Charge